Canadian Pacific Limited

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Brief to the Royal Commission on Corporate Concentration

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Introduction

To the

Royal Commission on Corporate Concentration

This brief is submitted by Canadian Pacific Limited. In attempting to respond to some of the Commission's basic concerns, the brief endeavours to describe the company's evolution from its early inception as a railway enterprise to the present and the process of diversification and development that took place in between. Canadian Pacific Limited continues to operate a railway and a telecommunications system but its other interests have devolved upon and are operated by subsidiary companies, many of which are involved in significant foreign business operations. The present day parent company, therefore, can be truly described as a diversified international Canadian business enterprise.

Part I

Brief Historical Statement

1. Canadian Pacific is one of Canada's oldest business enterprises, having been founded in 1881. Its history has been publicly documented at several points of time, the most recent being that written by John Lorne McDougall and published in 1968. An historical memorandum which is intended to update and expand upon McDougall's historical treatment is attached as Appendix A. Also attached as Appendix B are three organization charts showing the corporate relationships between the parent company and its main subsidiaries.

2. From its inception, the company has diversified. This diversification process has been very largely based on the logical development of the enterprise, its assets and the capabilities of its people.

3. It is easier to understand the evolution of Canadian Pacific if its corporate development is divided into three basic parts:

a. the development of an integrated transportation enterprise from the railway;

b. the development of businesses flowing directly from railway requirements, and

c. the development of the other assets of the company.

4. At the expense of some slight distortion in chronology, and dealing only with the highlights, each of these parts will be mentioned in turn.

Integrated Transportation

5. Canadian Pacific began as a railway enterprise and the railway today, although very different from the railway that was completed in 1885 to tie Canada together and thus make confederation workable, is still one of the company's major businesses.

6. From the outset, however, the founders of Canadian Pacific regarded its business as transportation in the broadest sense, and not simply rail transportation.

7. Hence, in 1886, Canadian Pacific began chartering vessels on the Pacific Ocean to connect with the recently completed trans-continental railway. This was followed by taking an interest in shipping on the Atlantic, to connect with the eastern terminal on the railway, so that Canadian Pacific could offer an integrated through-service between western Europe and the Orient. Over the years, the company's ocean shipping interests have developed in their own right to reflect changing trade patterns and technology. Ocean shipping, as represented today by CP Ships and CP Bermuda, is a major activity of Canadian Pacific.

8. By 1919, Canadian Pacific had obtained statutory authority from Parliament to own and operate aircraft within and without Canada. Beginning in 1939, a series of acquisitions of small regional airlines (mostly operating north to south) was made, resulting in the formation in 1942 of Canadian Pacific Airlines, Limited (CP Air). From these beginnings, CP Air has today evolved into a major domestic and international air carrier.

9. The company's involvement in the modern trucking industry began immediately after the Second World War when it became clear that intercity trucking would become a major part of the domestic transportation scene, as the result of improved automotive technology and the construction of intercity highways. A series of acquisitions in the years 1946 through 1948 in Western Canada was accompanied by

development of routes by Canadian Pacific itself. In 1958, Canadian Pacific acquired control of the Smith group of trucking companies in Eastern Canada and the U.S.A. Building upon this base, the extra-provincial trucking business has become a major business interest of Canadian Pacific.

10. The only major sector of the transportation industry in which Canadian Pacific has, at present, no operating involvement is the pipeline sector. In order to establish a position in solids pipelines, a technology which holds promise of capturing a significant share of the market for the movement of bulk materials, Canadian Pacific formed ShelPac Research & Development together with Shell Canada Limited in 1969. No operating ventures have as yet resulted from Canadian Pacific's research in the field of solids pipelines.

11. Thus Canadian Pacific, which began as a railway, has followed the evolution of markets and technology, to develop into an integrated transportation enterprise.

Railway Related Development

12. The very nature of the trans-continental railway led Canadian Pacific into two businesses.

13. First, the need for hotel accommodation for railway passengers in western Canada became apparent and Canadian Pacific responded by beginning to construct and operate hotels in 1886. This evolved into a nation-wide chain of hotels, designed to meet the requirements of railway passengers. With the decline in rail passenger movement and the development of new travel patterns, CP Hotels has followed its customers away from the railway tracks and has established itself as a separate company with hotel, restaurant and flight kitchen operations in Canada and beyond.

14. Secondly, the development of commercial communications (now CP Telecommunications) also sprang directly from the opening of the trans-continental railway. Telegraph lines were needed for railway operations and it appeared not only logical, but also necessary, that these facilities be made available to commercial users, given the fact that there were no alternative communication facilities. From this beginning, CP Telecommunications has evolved as a division of the parent company, into a modern commercial communications enterprise, offering a wide variety of communication services within Canada.

15. Both these enterprises were begun to suit the needs of the railway. Over the years, they have matured and become well developed, separate, commercial operations in their own right.

Other Assets

16. The completion of the transcontinental railway system not only involved Canadian Pacific in the transportation, hotel and telecommunications business; it also involved the company directly in the resource development industry. Much of the thrust of Canadian Pacific over the past 10 to 15 years has been to develop the resource aspect of its business. In so doing, and in developing those opportunities that presented themselves along the way, Canadian Pacific has become what it is today.

17. Canadian Pacific Investments Limited (CPI) was incorporated in 1962 as a wholly owned subsidiary of Canadian Pacific Limited to reflect the broadening interests of the Company and to encourage the development of specialized managements necessary to manage and develop various business enterprises. Over a period of years, all of the non-transportation interests to be discussed below, as well as the company's hotel interest, were transferred to CPI. A successful public issue of $100 million of convertible preferred shares with attached share purchase warrants has reduced CPL's ownership of CPI to some 84%. The development of the non-transportation interests of Canadian Pacific is largely the story of CPI. The highlights of this development will now be reviewed.

Mining

18. With the construction of the Crows Nest Pass branch of the railway at the turn of the century, Canadian Pacific wished to acquire a local line of railway in the Kootenays but could not purchase it without also purchasing a small lead smelter which was owned by the same person, a U.S. citizen. The then management of Canadian Pacific wanted the railway and found that they could use the smelter to encourage mining development and feed the railway, but there was no enthusiasm to purchase the smelter.

19. The small lead smelter at Trail, which was purchased for $206,000, led, in turn, into the mining business and this, in turn, led to the development of the Sullivan mine, which, by 1914, was the largest lead mine in Canada. Lead mining and smelting led to zinc mining and smelting, which led to power generation and to the first successful differential flotation process for lead and zinc by 1920.

20. Treatment of sulphur compounds being emitted from the smelter led into the fertilizer business and the accumulation of iron sulphite tailings from the Sullivan concentrator led into the iron and steel business. In this way, the acquisition of a small smelter resulted in Canadian Pacific holding a controlling position in Cominco Ltd. which is today one of the world's major mining and fertilizer enterprises, with developments in Canada, the U.S.A. and other countries.

21. The second major mining interest of Canadian Pacific involves coal, as represented by Fording Coal Limited and CanPac Minerals Limited, both companies being owned 60/40 by CPI and Cominco respectively. Fording Coal was incorporated in the late 1960's to develop a deposit of coking coal in south-eastern British Columbia to meet the demand for coking coal by the Japanese steel mills. The coal reserves were located on Crown lands leased to Canadian Pacific. CanPac Minerals was formed in 1969 to take over certain existing mineral rights and, as a result of a vigorous program of exploration and acquisition, has become one of the major developers of both coking and thermal coal in western Canada.

Real Estate

22. In 1963, Marathon Realty Company Limited was incorporated with broad powers to carry on and invest in the real estate business and related operations. The initial undertaking of this company was to manage and develop the lands owned by Canadian Pacific which were not required for railway operations. Over several years, a number of transfers of lands, which had previously been administered by the railway, were made to Marathon.

23. Since its incorporation, Marathon has pursued a vigorous growth policy based upon its initial land position, its retained earnings plus market borrowings and has developed into one of Canada's major real estate development companies. While its initial developments took place on land transferred to it from the parent company, it has since become a self-contained real estate development enterprise.

24. At the end of 1974, Marathon owned and operated in Canada 16 office buildings, 24 shopping centres, 70 industrial buildings and 1100 residential units at 8 different locations. In addition, Marathon has major interests in several joint ventures, the largest being a commercial office development in Vancouver.

Forest Products

25. Pacific Logging Company Limited was incorporated in 1941 but did not become active until 1962 when it acquired from the Esquimalt & Nanaimo Railway Company (wholly owned by Canadian Pacific) certain timber acreage on Vancouver Island. Pacific Logging pursued a policy of logging and reforesting these lands and has expanded its operations through the acquisition of additional timber acreage and investment in companies having related operations in the field of sawmills and logging. Pacific Logging remains small in relation to the major integrated forest industry companies and its locale of operation is presently restricted to Vancouver Island and the west coast of British Columbia.

26. To broaden its base, both geographically and commercially, in the forest products industry, Canadian Pacific began acquiring shares in The Great Lakes Paper Company, Limited in 1964. Control was acquired in 1971. Great Lakes Paper is a medium sized manufacturer of newsprint, unbleached sulphite pulp, bleached kraft pulp, panel board and stud lumber and is presently engaged in a $170 million expansion and diversification program. Its operations are located at Thunder Bay, Ontario.

Oil and Gas

27. The active expansion of Canadian Pacific in the oil and gas industry began in 1958 with the incorporation of Canadian Pacific Oil and Gas Limited. Before that date, a department of the railway had administered all mineral rights owned by Canadian Pacific and, in the case of petroleum lands, this had taken the form of various leases to third parties, largely the multi-national oil companies.

28. With the formation of CPOG, that company undertook the development of the oil and gas potential of the properties on its own.

29. In 1964, CPOG began to purchase an interest in Central-Del Rio Oils Ltd. which resulted in the amalgamation of CPOG and CDR in 1971 under the name of PanCanadian Petroleum Limited. This merger broadened geographically the base of operations in Western Canada.

30. PanCanadian Petroleum has significantly expanded its operations both in Canada and internationally, either directly or through subsidiary companies and has now developed into one of Canada's largest non-integrated oil and gas companies.

Iron and Steel

31. Prior to 1973, Canadian Pacific's major exposure to the iron and steel business was Cominco's development of an integrated steel business in Western Canada. This would not rank as a major business enterprise. During 1973, Canadian Pacific was given the opportunity of purchasing a block of shares in The Algoma Steel Corporation, Limited (Canada's third largest integrated steel producer) held by Mannesmann A.G. of West Germany. This was the largest single block of shares in Algoma, representing approximately 25% of its outstanding share capital.

32. The initial acquisition of a 25% interest in Algoma in September 1973 was followed by further stock purchases in the open market and by a successful offer in June, 1974, to purchase an additional 2,500,000 shares of Algoma, an offer which was supported by the management of Algoma. As a result, Canadian Pacific Investments now owns 50.5% of the share capital of Algoma.

Stock Ownership

33. While Canadian Pacific was engaged in the process of diversification, it was also interested in repatriating the ownership of its own stock from non-Canadian registrants. In 1946, less than 10% of the voting rights in the parent company was held in Canada while some 60% of these rights was held in the United Kingdom and other British territories and the balance largely in the U.S.A. At that time, the owners of Ordinary Capital stock were entitled to one vote for each share and the owners of Sterling Preference stock were entitled to one vote for every five pounds Sterling. In the interest of repatriation, senior officials of the company involved themselves in a campaign to increase the marketability of the stock in Canada. This was achieved, in part, through a series of meetings over a number of years with Canadian fund managers, large institutional investors, analysts and brokers. At the same time, the coverage previously given to similar professional groups in the U.S., U.K. and continental Europe was discontinued. Moreover, the direction given to the underwriters, banking and sales group of the CPI issue in 1967 to market the issue in Canada contributed significantly to the higher profile that Canadian Pacific stock began to enjoy in the Canadian market. But in addition, the following steps were also taken:

a. facilities for the registration and transfer of Sterling Preference stock were extended to include Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver between 1962 and 1967;

b. Sterling Preference stock was listed on the Montreal, Toronto and Vancouver stock exchanges in August, 1965;

c. an offer was made to the Sterling Preference stockholders in 1967 to convert their stock into Canadian Dollar Preference Stock on the basis that one pound Sterling would be the equivalent of $3.00 Canadian, and

d. transfer facilities for the new Canadian Dollar Preference Stock were not provided in London, England.

A large portion (88%) of the Sterling Preference Stock was converted during the 1967 conversion period resulting in an increase in the total voting rights held in Canada from 58.58% to 62.63%. In 1971, in excess of 80% of the existing preference stock in Canadian Dollar and Sterling denomination was converted to non-voting 7¼% Cumulative Redeemable Preferred Shares — Series A. In the overall result, Canadian registered voting rights have continued to increase and at September 30, 1975 these rights stood at 65.62%.

Summary

34. Based on its assets at the time of incorporation and those that were added in the early years of operation, Canadian Pacific had three broad alternatives:

(i) to develop strictly as a railway, disposing of its non-railway assets as this became possible — in part, Canadian Pacific did this by selling the very large part of its surface lands and the majority of its mineral rights;

(ii) to restrict its operations to railway and railway related business and lease its other assets to others — for many years Canadian Pacific followed this policy; or

(iii) to develop a fully integrated transportation system by land, sea and air; to develop companies directly associated with its transportation undertakings; to develop its natural resource base and to diversify that base geographically through acquisitions of properties and companies and to broaden its transportation and natural resource base by moving into heavy manufacturing.

Canadian Pacific, as can be seen from this brief, historical outline, chose the third alternative. Several key points stand out:

a. The diversification of Canadian Pacific over the years has been very much based on the logical and systematic development of its assets, its markets and the skills of its people. The railway took Canadian Pacific naturally into the entire transportation business, the hotel business and the commercial communications business. The resource base of the company led naturally into mining, oil and gas, forest products and real estate. Along the way, some unique opportunities presented themselves — and they were developed. The acquisition of what is now Cominco in 1898 and of Algoma Steel in 1973-74, both of which involved repatriation from foreign interests, fall into this category. Not to have pursued all these opportunities would have been a disservice to the country, to say nothing of the shareholders.

b. The format of Canadian Pacific's diversification was to give a separate commercial structure and management to each of its businesses. As a result, they have developed in their own right without too much regard for their origins. CP Hotels, for example, began as a service to meet the requirements of rail passengers; today it operates a far-flung chain of hotels and dining facilities serving all sectors of the travelling public. Similarly, PanCanadian Petroleum is now exploring in the North Sea, in the Middle-East and in South-East Asia in addition to its Canadian interests. Each business develops a commercial logic of its own, based not on its origins, but rather on the dictates of the marketplace and technology. Hence it is difficult to predict where a venture will eventually lead.

c. In all of its ventures, Canadian Pacific has been a pioneering company. This is equally true of the railway, which was built when many thought it impossible, to telecommunications, which for years provided the only means of communication across Canada, to the development of the mining industry in south-east British Columbia, and the pioneering interests in the Athabasca Tar Sands and Panarctic Oils Ltd. Canadian Pacific has been a company which built and aggressively innovated. It is a company based on people and physical assets, not financial manipulations.

d. It would be overstating the case to say that the public interest has always been the major motivation of the company's actions. But it would not be an overstatement to say that the public interest has been well served by the business activities of Canadian Pacific. A country was opened, some of its basic resources developed, control of a Canadian company was repatriated from abroad and, finally, that company was established so as to be able to compete and develop throughout the world.

Part II

The Public Interest

35. In what has gone before an attempt has been made to describe the evolutionary process of CPL and how it diversified as it evolved. Indeed, the continuing requirement for economic development and progress and the logic of events made diversification essential and possibly as inevitable as the evolution itself.

36. The Commission has indicated that one of the principal questions facing it is whether the public interest is either harmed or enhanced by the existence of large diversified or conglomerate groups and by their acquisition of other businesses. This question will be dealt with, generally, in terms of the company's performance and in terms of such considerations as diversification, size and competition as these are seen to relate to the Canadian environment.

Performance

37. Ultimately, an assessment of the results of CPL's diversification must be based on the overall performance of the company judged after the fact and from the point of view of "the public interest".

38. In coming to grips with the matter of the public interest, however, it must be recognized that Canadians and their interests are neither simple nor homogeneous: that is to say, they do not all have the same interests and each, in turn, has many different interests.

39. To begin with, it is clear that there are many interests that are touched very little by corporate activity except to the extent that they give rise to a demand for goods and services. By way of example, Canadians have interests as members of families, as members of different churches, as holders of ethnic and cultural values, as members of voluntary organizations and so on. They also have an interest in the right to freedom of speech and freedom generally — to do as they wish within reasonable limits. Corporations have relatively little to do with many of these very important interests and touch them but slightly, if at all.

40. The publics, the groupings of individuals, that corporations do touch in a more significant way are individuals as consumers of the company's products, as workers, as shareholders and as managers.

41. Because all Canadians use the services provided by governments, they are all concerned with how these services are paid for and, therefore, they are all interested in companies as payers of taxes.

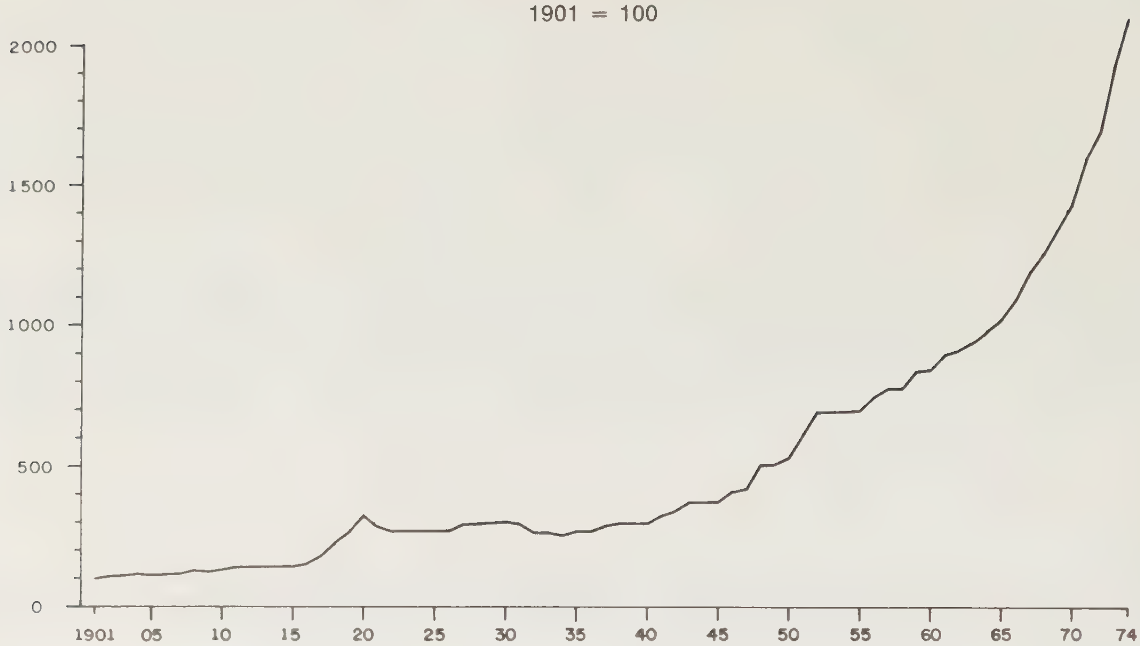
42. Finally, since everyone must live somewhere, breath the air, drink the water, and look at the landscape, everyone is concerned about the "by-products" of corporations, institutions, households, and of individuals which have environmental consequences.

How have the workers done?

43. The following graph shows the long term trend of income per hour for railway workers as a group from 1901, the earliest year for which data were available, to date.

INDEX OF AVERAGE WAGE RATES
FOR RAILWAY WORKERS

1901 = 100

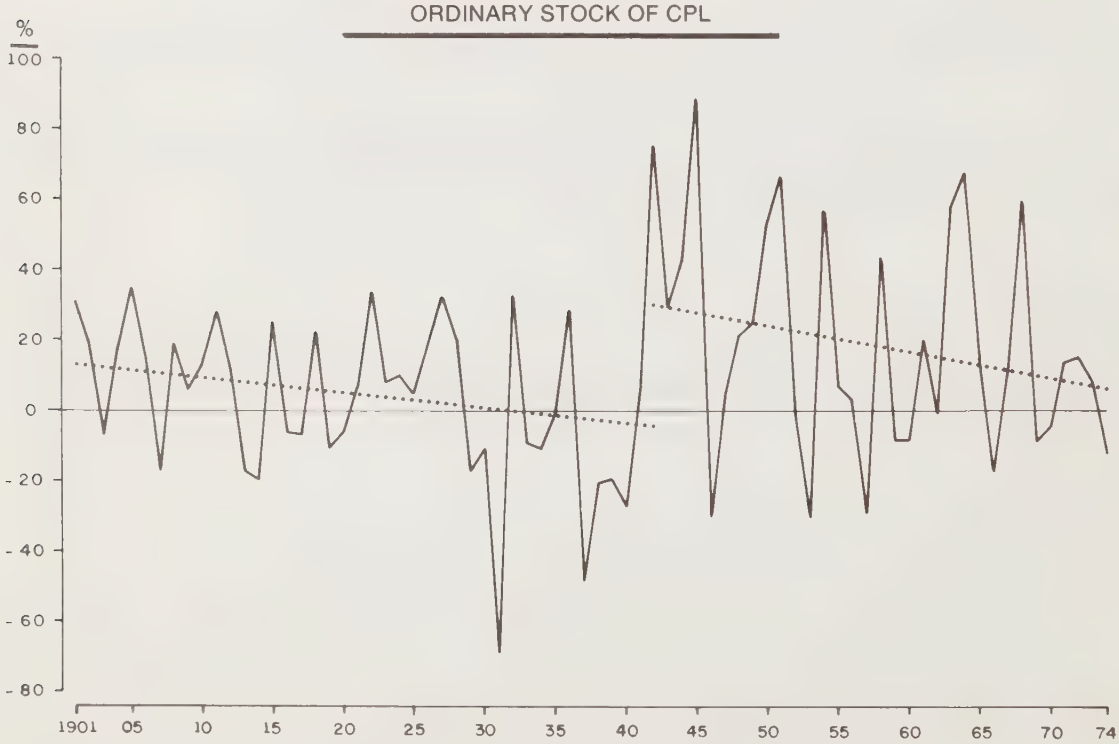


44. It will be noted that the improvement enjoyed by the labour force has been both steady and substantial. Since 1901, income per hour of work has doubled, on average, every 17 years.

How have the shareholders done?

45. In sharp contrast to the progress enjoyed by railway workers, is, in general, the low and declining reward received by the shareholders. The following graph shows the annual rate of return to shareholders from 1901 to 1974 counting both actual dividends and "paper" gains or losses in the stock market. The rate of return for any year is calculated on the basis of dividend plus or minus the capital gain or loss on the price of the stock, divided by the average price of the stock as found at the beginning of the year.

SHAREHOLDER RATE OF RETURN ON
ORDINARY STOCK OF CPL



46. It should be noted that the year-to-year variation is large indicating the real and very large financial risk borne by shareholders. Far more serious, however, are the long-term falling trends from 1901 to the Second World War and from the resumption of dividend payments in 1943 to the present.

47. Obviously, there has been no shareholder rip-off! Indeed, shareholders have tended to do somewhat poorly over the years. In part, this may be blamed on a general downward trend in the market, but it must also be attributed to the problems which many enterprises have experienced over the years with government regulation.

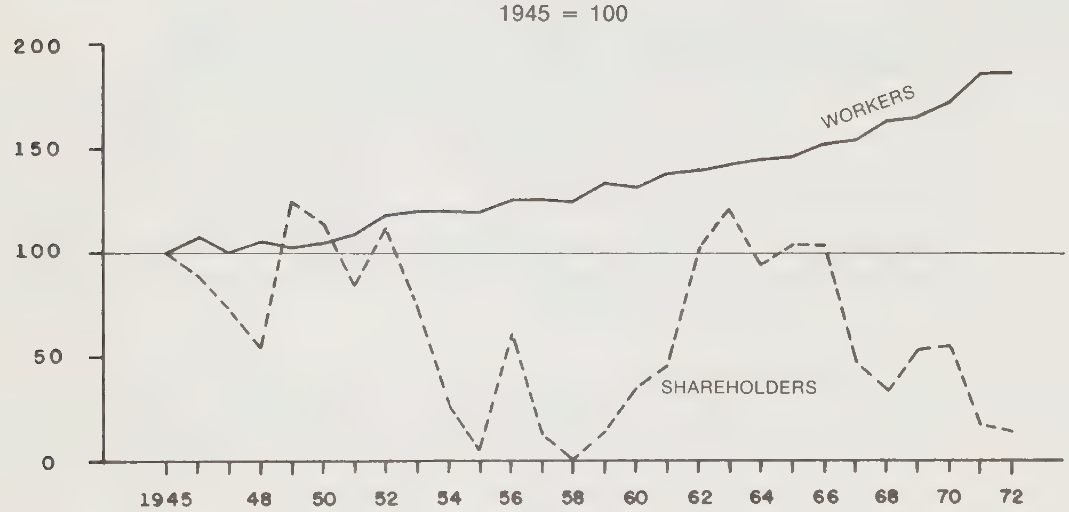
48. The facts make it very hard to accept the proposition put forth by some that owners or shareholders are running the country. If the mystique of a particular ideology insists that they are, the facts make it impossible to believe that they are doing it for their own benefit.

The rewards of workers and shareholders compared

49. To emphasize the last point, the following index for the post war period shows on the same graph the real return to labour and the real return to shareholders as a 5 year moving average for the period 1945 to 1972.

INDEX OF REAL RETURNS TO WORKERS
AND TO SHAREHOLDERS

1945 = 100



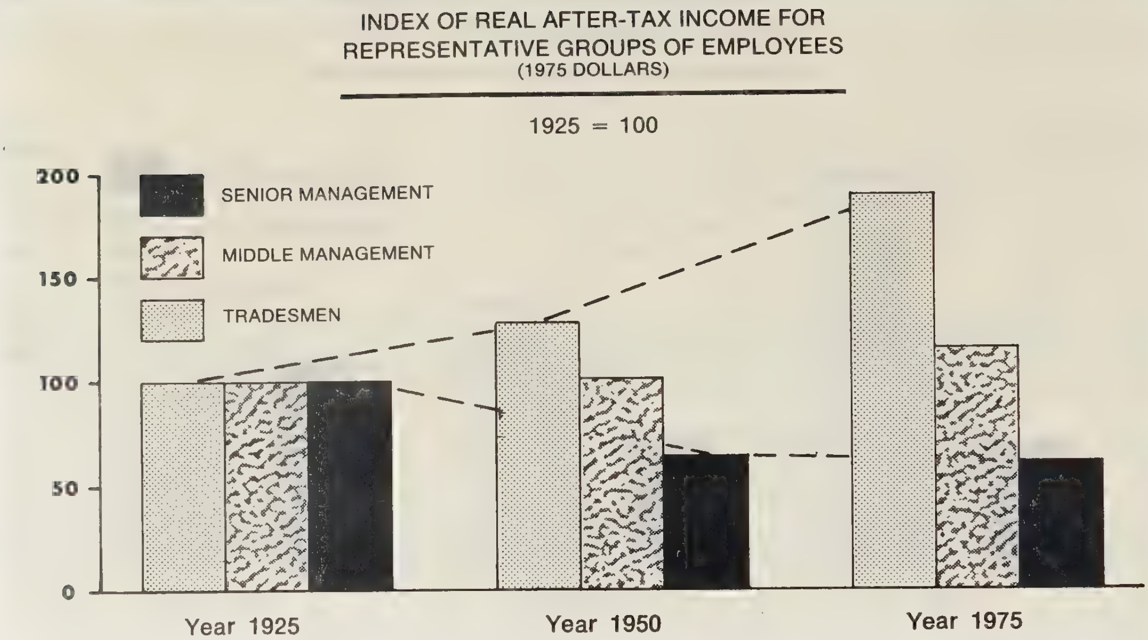
50. The foregoing is a useful graph to keep in mind when critics of business talk about the power of capital and the exploitation of labour.

How have the managers done?

51. According to the myths of the left, corporate managers have as their prime objective the appropriation of surplus profits to the advantage of those who make allocative decisions.

52. A common sense test of this interesting hypothesis is to see how those who manage large companies have done over the years vis-a-vis the average worker.

53. The following graph is a chart which traces the relative progress made over the last half century by three groups of employees of CPL: a representative sample of senior management, middle management and tradesmen. Since the chart shows an index of the real after-tax income, it has been assumed in all cases (for purposes of calculating tax) that each was married and supported two children.



54. If perquisites of office and fringe benefits were taken into account, the spread would be at least as great. Managers have always enjoyed some fringe benefits but fringe benefits for base pay employees are relatively new.

55. If this graph were drawn on the basis of compensation per hour worked, the relative position of top managers would be considerably worse than is shown above. In the 1920's CPL tradesmen averaged some 48 hours per week. Today they average 40. The work week for senior management has not fallen but increased with the increasing complexities surrounding the modern company and its problems.

56. This narrowing in the relative position of workers and managers over the years is so much at variance with the idea that the rich are getting richer while the poor are getting poorer that it is useful to point out a few obvious facts which support the graphic analysis.

57. The home of one of the first Presidents (Lord Mount Stephen) of CPL is still available for inspection today, although it is no longer a private residence. No member of CPL's management could afford to either build it or live in it today. One could go on at some length comparing the differences that once existed between the amenities of the senior executive and the workers of CPL and contrasting that with the present situation.

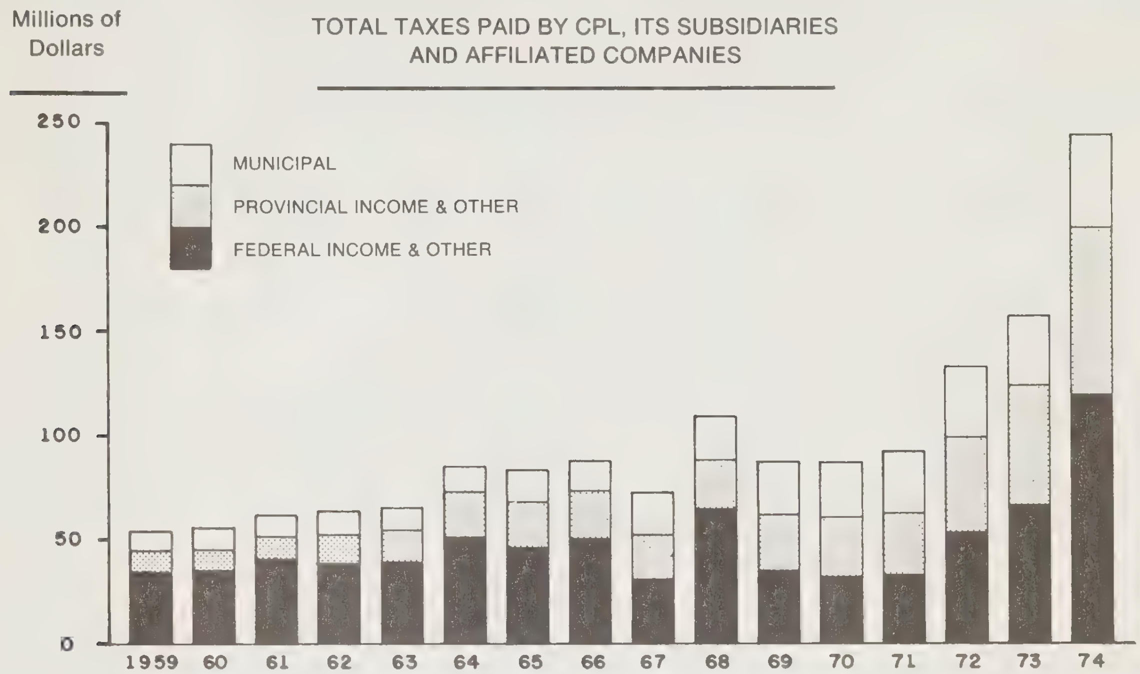
58. Whether one considers living space, transportation, health care, the education of children, or home entertainment, the difference in living standards between the generals and the soldiers in CPL has steadily declined. There has been no management rip-off in CPL.

59. Some redistribution of income within companies in Canada may well have been in order; but when one considers the investment in education, the long hours, and the amount of responsibility borne by top managers, one must be concerned with how far this redistribution has gone.

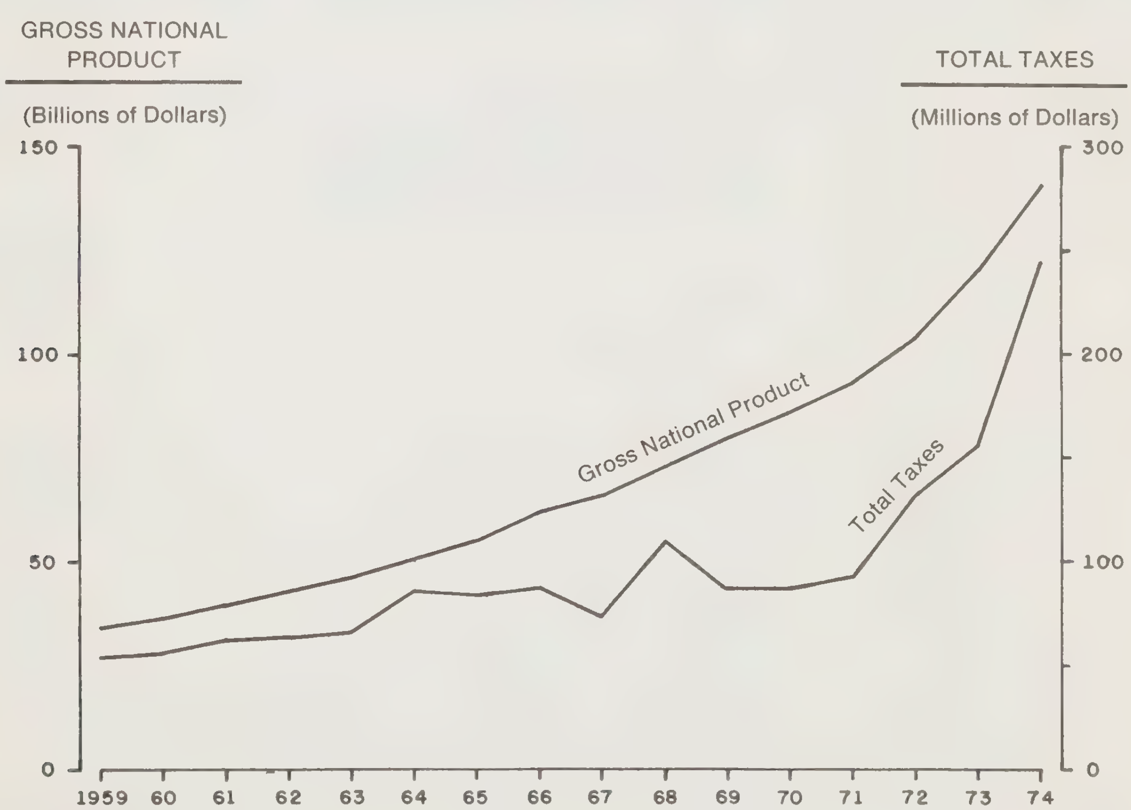
60. In any event, it is impossible after looking at the facts to take seriously the charge of the left that managers are making allocative decisions in their own favour.

Taxes

61. Big business has been accused of not paying its fair share of the nation's tax burden. Looking at CPL and its subsidiaries, the facts speak for themselves as shown on the following bar chart for the past 15 years (statistics for prior years are not readily available).

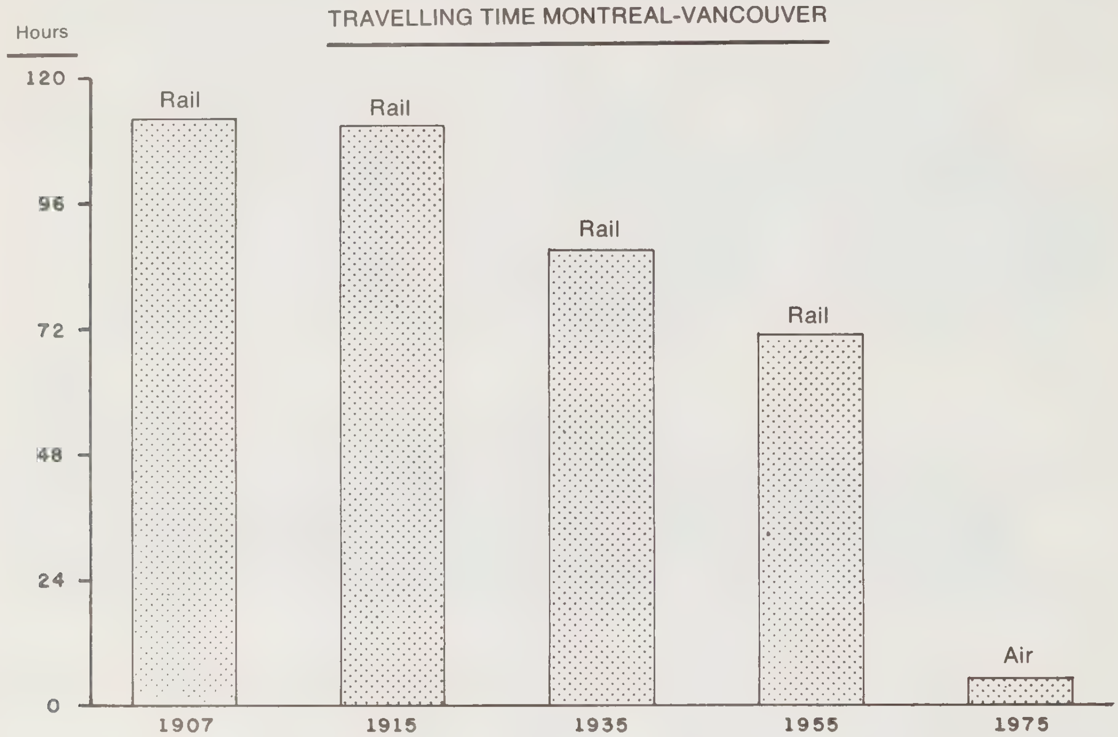


62. If compared with the gross national product over the same period, it will be noted from the following graph that these tax payments have, on average, kept pace.



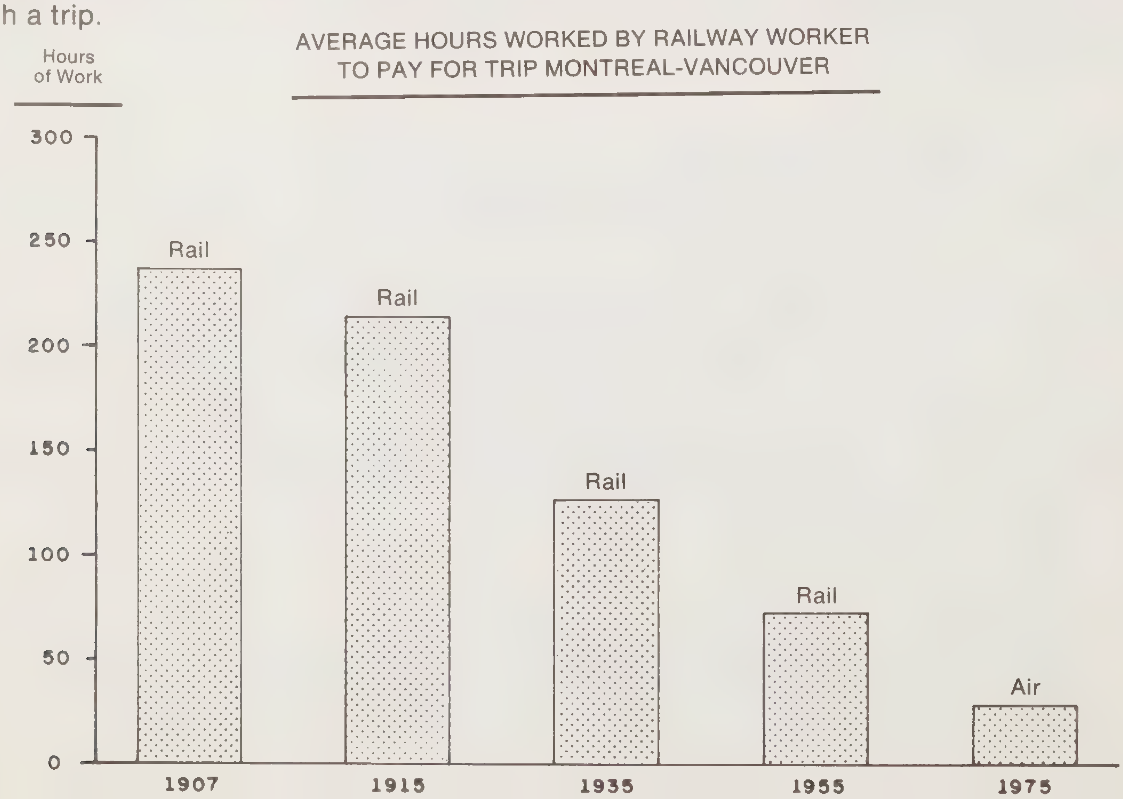
How have the customers done?

63. The workers and managers of CPL are human beings and sometimes make mistakes. But looking beyond such incidents as a lost piece of luggage or a delayed delivery of freight to the major long-term trends, there lies an indisputable and impressive story of progress in all areas of CPL's business. In passenger transportation, for example, a business which has operated since 1885, the following bar chart gives a fair estimate of the time which a transcontinental traveller could count on spending on a trip from Montreal to Vancouver between 1907, the first year for which the necessary information was available, and 1975.



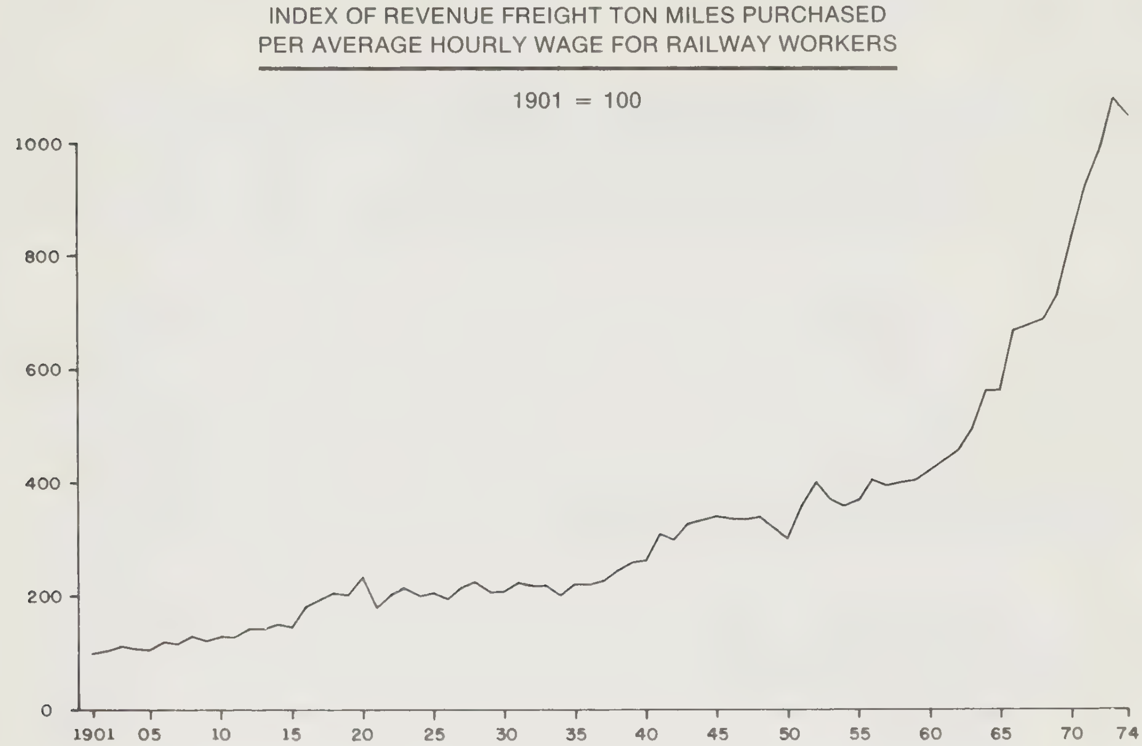
64. The improvement in time reflects, in the first instance, the improved operating performance of the railway, and in more recent years, the replacement of rail travel by air travel. Much the same story could be told for transocean passenger travel.

65. The next chart shows the number of hours an average worker might expect to have to work to pay for such a trip.

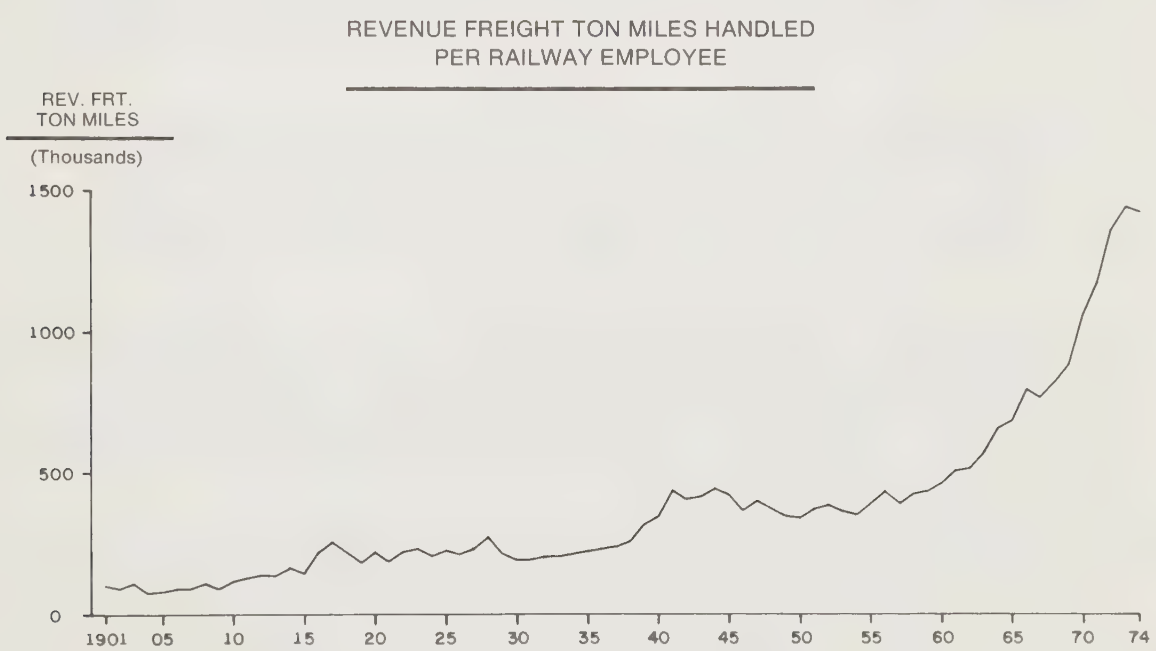


66. The improvement for freight may be harder to appreciate unless one is a professional shipper, but the progress made over the years is no less dramatic.

67. While overall productivity cannot be measured by labour input alone, the following chart presents the increases in the average ton miles of freight handled per rail employee from 1901 to the present.



68. What has rail freight transportation cost? The following chart shows the number of ton miles which could have been purchased from the wages earned in an hour's work since 1901, which is set at 100.



69. There are, of course, many measures of customer "better-offness" that can be used and the same could be done for the other businesses in which CPL is engaged. However, transportation has been chosen because of its long history. For the present it has been demonstrated that consistent and significant progress has been made in meeting customer needs in terms of faster and better service and at lower real cost.

Conclusion on Performance

70. It is submitted that CPL has progressed dramatically in terms of performance and it is clear from this analysis that the main beneficiaries have been workers and customers.

71. The proposition that large companies have not benefitted the public is clearly not true in the case of CPL. Moreover, it is unlikely to be true of large companies in general.

Diversification

72. The next point that should be made is that CPL is a diversified company, not a conglomerate as the term is normally understood. A conglomerate is usually thought of as a collection of unrelated enterprises controlled through some sort of holding company device. This, CPL is not. CPL is an operating company which, as its history has made clear, has branched out into related activities. By and large, its activities have grown logically and out of its original railway and resource position.

73. The second point that should be stressed is that the position of CPL and of other large and diversified companies in Canada must be looked at in the Canadian, and not the American, context. Discussion of business issues in Canada is frequently clouded by the fact that so much of the information we absorb and so many of the opinions reported in what we read are made in, and apply to, the United States. Canada is not the United States. Business in Canada faces quite different problems than does business in the United States. The following are some of the points of difference:

a. The Canadian market is but a fraction of the market in the United States, yet the same economies of scale apply equally to both countries.

b. The Canadian market is long and thin and is exposed to import competition at every point. This competition is intensified by proximity, low north-south transportation charges, similarities of legal, economic and social conditions, spillover advertising, little if any made-in-Canada loyalty, etc.

c. The Canadian financial markets are smaller with a smaller size and range of fund gathering and fund dispensing institutions.

d. There are fewer significant pools of capital in Canada that can be used for financing new ventures or for rejuvinating or expanding old ones.

e. Large diversified Canadian companies are of particular importance in Canada because they can pool executive talent. This is important because management education has lagged far behind the United States. While there has been an acceleration of effort in Canada in this regard beginning about 1960, well qualified older managers who entered the labour market prior to 1960 are, and will remain, in short supply.

f. Canada has a very different political system than has the United States and the differences tend to make the Canadian government stronger vis-a-vis business.

g. Unlike the tax laws in the United States, Canadian tax laws have not permitted the filling of consolidated tax returns where a Canadian company purchases a substantial interest in another company.

h. Unions as a source of countervailing power are much more important in Canada than they are in the United States. Moreover, our unions have tended to be more politically motivated.

i. Political action by the left has been stronger and better financed in Canada than in the United States with all that implies about public attitudes and pressures on business. Canada has had a very adverse balance of trade in left wing radicals.

j. Canadian companies are, in general, very much smaller than their counterparts in the United States.

74. It is incontestable that large Canadian companies must be considered in the light of Canadian conditions and Canadian problems and that U.S. literature on the subject must not be allowed to distort our judgment. Indeed, nothing short of a case-by-case approach in Canada would be appropriate and that is why it is important to understand the history of CPL's development.

75. While still on the topic of the U.S. literature, there have been some general and highly publicized criticisms made of the take-over process in that country and it should be clearly understood that the lion's share of the corporate growth of CPL has come from direct development and not by take-over. Further, it must be said that CPL has never used any accounting or fancy paper gimmicks to influence the price of its shares or to mislead investors.

76. Moreover, CPL has been strict about having each of its enterprises operating as profit centres exercising autonomy and dealing with each other at arm's length. Where possible, an attempt has been made to strengthen or fortify this position by introducing an element of outside shareholding. There has never been any predatory pricing and every effort is made to avoid cross-subsidization but occasionally this has been forced on the company by government policy or regulation. While CP Air did operate at a loss for a number of years, this was not done to drive a weak competitor out of business! Finally, neither reciprocal buying leverage nor "clout" is used to obtain business. In this respect, each business enterprise must act on its own in a competitive way.

Concentration

77. The next issue that should be raised concerns concentration. Both the Canadian and American press have been overflowing with comments about the highly concentrated state of the economy. There are a number of myths on this subject which should be challenged, especially in relation to CPL's experience.

Total Industry Concentration

78. The first myth is that the biggest companies are growing bigger and will soon gobble up the whole economy. Marketing, production and management technologies have been changing and, as a result, the optimum size of firms has changed and will undoubtedly go on changing. However, one cannot conclude from Canadian history that the biggest companies are getting bigger relative to the whole economy; in fact, the reverse is true.

79. The Stevens Price Spreads Commission reported that in 1933 the hundred largest companies in Canada owned 65% of the total capital of all companies. By 1958 the 94 largest corporations owned 40.6% and by 1965 this figure had shrunk to 37.6% . In thirty years there has been a substantial decline in the relative importance of Canada's largest companies.

80. To be more specific, an estimate of the relative size of CPL over the past 80 odd years has been prepared. While it is difficult to be precise, it is a fair guess that in 1890, the assets of the then CPR must have constituted a very large part of all corporate assets in Canada. Construction and employment by and for the then CPR was certainly the biggest single source of income in Canada.

81. While data on corporate size are difficult to come by, it would appear that in 1923 CPL and its subsidiaries represented 21% of the assets of the largest one hundred Canadian corporations. By 1933 this

had fallen to 19% and by 1974 to 7% . Looking today at their size in terms of total corporate assets, the percentage is approximately 1 to 2%. Utilizing another basis of comparison, the ratio of CPL consolidated sales to current dollar GNP has been falling. Just before the last war its revenue constituted almost 4% of GNP. This percentage has fallen to under 2%. The following table illustrates the decline.

1910	4.5%
1939	3.7%
1974	1.6%

82. In terms of the total Canadian labour force, CPL is even more modest. In 1975 all persons employed by CPL and its subsidiary enterprises in Canada amounted to less than one per cent of the total labour force.

83. The facts show very clearly that there has been a persistent and significant decline in the relative size and — if one follows the mythology of the left, one would also have to say — in the relative power of the largest companies in Canada. In the case of CPL, including all its subsidiaries, the decrease in size relative to the economy as a whole has been dramatic.

Industry Concentration

84. The second myth concerns industry concentration. Studies show that Canadian industry is highly concentrated in the sense that a relatively few firms account for a relatively large percentage of production in many industries. It is thought by some that high concentration means little or no competition.

85. It is significant that concentration studies are not written by salesmen or by businessmen with knowledge of what competition is all about. Unfortunately, concentration studies are based on irrelevant data and a theoretically unsound view of the dynamics of competition.

86. Without going into the theory, it is surely obvious to a thinking observer that economic progress has not been made in those areas where an infinitely large number of small firms sell an unchanging homogeneous product. On the contrary, wider choice to the consumer, increased productivity and improved products have occurred in those situations where a relatively few firms in different but competing industries try through a process of trial and error to win customers with better and cheaper products.

87. Competition cannot be studied by the use of a still camera. Competition must be lived, and if a photographer would learn about it, he must at least use a movie camera and make sure that is has a wide lens.

88. To illustrate the foregoing, reference can be made to a few examples from the history of CPL. The most dramatic example concerns the railway. According to the methodology employed in the concentration studies, the railway industry in Canada is now and throughout its history has been highly concentrated. The presumption is, therefore, drawn that there has been no competition; but what are the facts?

89. Without spending too much time trying to prove the obvious, if all the inter-city passenger miles and freight ton miles in Canada at the turn of the century were added up, it could be estimated that the railway had about 50% of that business.

90. Since that time, railway service has improved enormously. It is faster, safer, cheaper, cleaner, pollutes less, and pays more to its workers. Despite this demonstrable improvement in service, however, the railway must now compete with:

one other major railway;

over 14,000 trucking companies owning approximately 86,000 trucks;

some 1.6 million trucks owned by companies, farmers and individuals;

one other national and five regional airline companies, operating over 200 passenger and freight aircraft;

five major transmission pipeline companies; and

approximately 160 intercity and rural bus companies owning about 3,000 busses.

Moveover, there is the private automobile, which has captured approximately 85% of all intercity passenger miles.

91. If all of the passenger miles and all the freight ton miles travelled inter-city were added up, it could be estimated that Canadian Pacific's share of this business has shrunk from 50% to a very modest 17% in the last 75 years.

92. Yet, according to the methods used by the concentration studies, the railway was and is an industry of very high concentration!

93. It is impossible on either a share of the total market analysis or on the basis of simple common sense to conclude other than that the amount of intra- and inter-industry competition has grown enormously. CPL and its subsidiaries do not perform a single service for which they do not have to face intense competition.

94. As further examples of the foregoing, reference can be made to the telecommunications business and to the fertilizer business. In the case of the former, CPL pioneered in the telegraph business in the 1880's and it later joined with the Canadian National Railway Company in the 30's to supply the non-voice communication demands of Canadian subscribers. However, in the 1950's, the telephone companies that had previously operated only in the voice communication field entered into direct competition with the railways and were able to benefit from the economies available to them through the use of their existing telephone networks that had been financed and developed for the purposes of their voice communication business. CPL must now compete with the telephone companies if it wishes to carry on or develop its business in the data communication field. In the case of fertilizers, Cominco introduced the use of chemical fertilizers in Western Canada and supplied virtually the whole of that market until the early 50's. However, starting in 1954, a number of companies, mainly American subsidiaries, entered the field with the result that Cominco's share of the Western fertilizer market has been reduced to approximately 15%.

95. Based upon a consideration of the nature of the economic situation in Canada and upon experience, a number of benefits arising from the diversified nature of CPL can be listed.

a. One of the most obvious advantages of having relatively large and diversified companies in Canada is that Canada lacks the pools of capital that exist in the United States. Canada has followed an egalitarian position with regard to taxation of income, inheritance and, more recently, capital gains. Not only are personal fortunes in Canada more modest than in the United States, but individual companies are considerably smaller. Without being particularly nationalistic in outlook, it is nevertheless true that if it were not for CPL and other large companies, the degree of foreign ownership in Canada would be a good deal higher than it is today.

   It will be obvious to everyone that while the size of the Canadian economy is small, the size of many individual projects is not. It costs just as much if not more to construct a hydro electric dam, or a mine or a pipe line in Canada as anywhere else. It follows that Canada is not going to have companies capable of contemplating really large projects unless it has companies of equivalent size to undertake them. To take but one example, when a substantial block of Algoma stock which was then owned by a foreign company became available, who could have bought it in Canada except a company such as CPI? The only real alternative would have beeh a foreign buyer or, in a socialist environment, the Government.

b. Based upon CPL's history, it is clear that its diversified nature has enabled it to combine risks and to offer more stability to its workers, investors and suppliers. One would need to look no

further than the experience of CP Air to recognize that had it not been for CPL's backing, CP Air's employees would not have had the job security that they have enjoyed.

c. Besides offering a pool of capital, an operating diversified company such as CPL offers a pool of talent. This talent is particularly important because it includes not only experts in rather specialized fields but experts with a great deal of operating experience. Whether it is a matter of putting together a group of people to study the feasibility of a new venture or assembling a number of key people to run it, CPL has the depth of talent and experience that is necessary to do a good job. In view of the shortage of well trained and experienced managers in Canada, this is a point of particular importance.

d. Very closely related to the last point is the fact that there are important economies of scale in providing management services. There tends to be something of a bias on the part of economists and others to believe that economies of scale apply only to the production side of a company's operation. In fact, a company that is to stay healthy and competitive must plan, forecast, do marketing research and engage in public relations to find out what people want, keep up with an ever increasing set of laws and regulations, pay taxes, raise and handle money, and so on. These functions are both important and expensive; but since they are not particularly related to any one line of business, important economies of scale and a higher level of expertise can be achieved by diversified companies.

e. Of particular importance in the Canadian context is the ability to raise money without losing Canadian ownership of the equity involved. Many small and medium sized Canadian ventures have been acquired by foreign interests because, lacking the necessary assets and earning power, they have had to place equity with future customers in order to raise new money.

f. The points which have been made so far lead to the conclusion that diversification can make companies stronger and more competitive. In Canada where enterprise faces large foreign buyers, large foreign suppliers, and well financed and supported branch plants, the strengthening of Canadian companies is of particular importance.

As long as the Canadian economy is the size that it is vis-a-vis the large markets of the world (e.g. U.S., E.E.C., Russia, Japan and China) to do anything that would weaken Canadian companies would be very foolish indeed.

g. One of the very positive aspects of diversification which must be kept in mind is the innovative impact which this can have on the development of new and better products and services. Insofar as CPL is concerned, the reference is not to products that come out of test tubes but rather to such developments as containerization and piggyback service which have improved efficiency and reduced costs.

It is virtually self-evident that a diversified company with knowledge of both rail and truck operations and with first-hand experience of the frustrations of the shipper is the most likely to come up with new and promising developments.

h. One advantage of a diversified enterprise which is of particular importance in Canada is its ability to transfer investment funds from one field of activity to another. Of course, intersectoral transfer of funds can be accomplished by the money market but the Canadian market operates slowly and at a fairly high cost. The size and breadth of CPL has lowered the cost of the capital it has had to raise and made it easier to borrow. In addition, CPL effects economies in cash management and operates with less capital than would be the case if each of its separate enterprises operated entirely on its own.

i. The small size of the Canadian economy gives rise to another advantage of diversification. There are, in Canada, as in all countries, a group of entrepreneurs who start up their own ventures. Their common enemy, time, will decree that sooner or later, they or their successors will have

to pass their business on to other hands. Of course there are a few companies that survive on their own but the simple fact is that most ventures must at some time be sold or refinanced to maintain or salvage their value. If it should ever happen that existing Canadian companies are not permitted to purchase them, the risk of starting a new business or of investing in an existing business would increase immensely and real hardship to the individual and real loss to the community would be the result. The enactment of the Foreign Investment Review Act has made this issue critically important.

Market Dominance

96. The final competitive aspect of CPL to which reference should be made concerns the issue of so called "market dominance". Much has been said regarding the dominance of large companies in the Canadian economy, CPL's position in this regard should be stated. While it is doubtless true that CPL is a large company, a look at the markets in which it operates, either directly or through subsidiaries, indicates that in no case, can it be said to dominate its market.

97. Looking first at CPL's share of Canadian production in those markets which are primarily Canadian, that is to say, markets in which the most significant competitors are also Canadian companies, the following market shares are indicated.

Sector	*CP Entity*	*Year*	*Unit*	*Canadian Pacific Share*
Rail	CP Rail	1973	Tons loaded into Railway cars in Canada	33.4%
Trucking	All CP Trucking Interests	1972	Gross Revenues all Canadian carriers	4.9%
			Gross Revenues Canadian Class 1 carriers	10.2%
Air (Domestic)	CP Air	1973	Domestic Passenger Miles	20.5%
Steel	Algoma	1973	Total Industry Sales	18.1%
	Algoma	1974	Total Industry Sales	18.2%
Energy	PanCanadian Petroleum	1973	Oil & Gas Industry Revenue	1.9%
	"	1974	Oil Production	2.6%
	"	1974	Gas Production	2.4%
	"	1973	Net Wells drilled	5.1%
Hotels	CP Hotels	1971	Industry Sales	2.1%
	"	1970	Total Hotel Rooms	3.2%
Real Estate	Marathon	1971	Total Assets	1.0%

98. Even the modest percentages given in this table overstate its competitive position. Anyone who believes that Algoma competes only with Stelco and Dofasco does not know the steel industry — he does not know the strategic importance of smaller Canadian producers or the constant actual and overhanging competition of large foreign steel producers.

99. The next table gives CPL's share of Canadian production in markets in which total Canadian production is but a small proportion of a much larger world market.

Sector	*CP Entity*	*Year*	*Unit*	*Canadian Pacific Share*
Mining	Cominco	1973	Total Industry Sales	9.4%
	Cominco	1973	Total Industry Assets	8.3%
	Cominco and Pine Point Mines	1973	Lead Mine Production	47.0%
	Cominco and Pine Point Mines	1973	Zinc Mine Production	20.7%
	Cominco	1973	Gold Mine Production	4.8%
	Cominco	1973	Silver Mine Production	6.2%
Fertilizers	Cominco	1973	Potash Mine Production	10.6%
	Cominco	1973	Production all Fertilizers	9.0%
Energy	Fording Coal	1973	Total Coal Production	10.9%
Forest Products	Great Lakes Paper	1974	Industry Sales	1.4%
	,,	1974	Newsprint Production	3.5%
	,,	1974	Chemical Pulp Shipments	3.4%
	Great Lakes Paper and Pacific Logging	1973	Lumber Production	0.4%

100.In these instances, the market position of CPL is indeed negligible. For example, Cominco and Pine Point Mines may produce 47% of the nations lead, but this represents only 19% of North American production and 7% of world production. The zinc market is, in every sense of the word, a world-wide one. Fording Coal, for example, while producing some 11% of Canada's coal, only supplies 5% of Japanese coal imports, the market to which the coal moves.

Acquisition of Other Business

101.So far, an attempt has been made to deal in this brief with the question which the Commission has identified as the principal question falling within its terms of reference (see paragraph 36). In so doing, the brief has touched upon a number of cognate matters but apart from a reference to the Foreign Investment Review Act, no attempt has been made to identify the plethora of legal provisions that must be considered, if not complied with, when one business enterprise seeks to acquire control of another. These provisions are found at both the federal and provincial level and, for the sake of simplicity, Ontario legisla-

tion will be cited herein as being fairly illustrative of the kind of laws that are to be found at the provincial level.

102. The terminology applicable to this area of the law tends to be confusing. An acquisition can be described as a "merger", "amalgamation", "consolidation", "reconstruction", or "arrangement", depending upon the custom and company law of the relevant jurisdiction. A "take-over bid" may or may not be involved.

103. In the interests of simplicity it may be said that there are two chief methods of acquisition:

a. amalgamation; and

b. merger.

104. For present purposes, the term "amalgamation" is reserved to describe the creation of a new company and the transfer by operation of law of the assets and liabilities of two or more companies to such new company, or the fusion of two or more companies and their continuance as one company. The term "merger" is used to describe all other kinds of acquisition, which, again for simplicity's sake, can be grouped into three basic methods:

a. the sale of the assets of the company to be acquired for cash, shares or securities of the acquiring company;

b. the sale of the shares of the company to be acquired for cash, shares or securities of the acquiring company; and

c. the sale of either the assets or shares of both the company to be acquired and the acquiring company to some third company in exchange for cash, shares or securities of that third company. In this last method, the third company is merely the instrumentality through which the acquisition is accomplished by the acquiring company.

It should be noted that an acquisition by way of a purchase of shares may be accomplished by making a take-over bid which is regulated in a highly sophisticated fashion. For this reason, take-over bids will be dealt with specifically at a later stage.

105. A company contemplating a corporate acquisition would have to consider the provisions of the following federal legislation to the extent that these statutes might be applicable:

Foreign Investment Review Act, S.C. 1973-74, c. 46

Combines Investigation Act, R.S.C. 1970, c. C-23

Canada Corporations Act, R.S.C. 1970, c. C-32

Canada Business Corporations Act

Canadian and British Insurance Companies Act, R.S.C. 1970, c. I-15

Bank Act, R.S.C. 1970, c. B-1

Trust Companies Act, R.S.C. 1970, c. T-16

Loan Companies Act, R.S.C. 1970, c. L-12

Railway Act, R.S.C. 1970, c. R-2, and

National Transportation Act, R.S.C. 1970, c. N-17

106.At the provincial level, consideration would have to be given to the province's Securities Act and to its Corporations or Companies Act. In Ontario, for example, both The Securities Act, R.S.O. 1970, c. 426 and The Business Corporations Act, R.S.O. 1970 c. 53 contain numerous provisions regulating *inter alia* take-over bids, amalgamations and arrangements, and also set out the consequences of being an "insider", the ramifications of which must always be considered when a corporate acquisition is contemplated.

107.Most of the regulation in this area, both federal and provincial, centres around comprehensive disclosure requirements and certain approval requirements on the part of the acquiring company and of the company to be acquired, respectively. In addition, there are, in some instances, requirements for governmental or Ministerial approval. Because of its importance, the legislative requirements respecting take-over bids will now be mentioned.

108.A take-over bid is a circulated offer made by the acquiring company to the shareholders of the company to be acquired to purchase their shares at a fixed price per share. The Securities Act (Ontario), the Canada Corporations Act and the new Canada Business Corporations Act are examples of the most sophisticated provisions in Canada dealing with the regulation of take-over bids. The provisions of all three statutes are similar in many respects, the only major difference being the additional right under the federal legislation to acquire the shares of dissenting shareholders if 90% of the shareholders have agreed to sell.

109.The legislation provides that a take-over bid circular must form part of or accompany a take-over bid which is defined as an offer (other than an exempt offer) to purchase such number of equity shares as, together with the offeror's presently owned shares, will exceed 10% (20% under the Ontario Act) of the outstanding equity shares of the corporation.

110.The take-over bid circular, which must be sent to the shareholders of the company to be acquired, must contain certain prescribed information and must be approved by the directors of the offeror company.

111.If the Board of Directors of the offeree company recommends to its shareholders either acceptance or rejection of the take-over bid, it must send to each offeree shareholder a directors' circular, the contents of which are prescribed. The directors' circular must also be approved by the Board. It should be noted that under the new federal Act, a directors' circular is mandatory.

112.Under the federal legislation, a copy of the directors' circular and all supporting material must be sent to the Department of Consumer and Corporate Affairs (to the Director under the new federal Act).

113.Both the federal and the Ontario legislation create offences and prescribe penalties therefor. The Ontario Act gives a right of rescission to the offeree in certain circumstances and provides that that right must be set out in the take-over bid circular. An offeree has the right to rescind a contract resulting from a take-over bid if the take-over bid circular contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement contained in the circular not misleading. The Canada Business Corporations Act, in what is entirely new law, provides that in addition to the more traditional remedies such as fines, etc., the Director may apply to a court for an order *inter alia* restraining the bid; requiring the correction of bid documents; requiring compliance with the Act or regulations; and compensating any aggrieved person. Also added are several post-bid remedies. The court is expressly empowered to make an order rescinding any transaction; requiring the offeree to divest himself of acquired shares; and prohibiting the offeree from voting acquired shares.

114.It is at once apparent on an examination of the legislation in this area that, if there are any serious problems yet to be solved, the framework already exists for their solution. Additional legislative schemes should not be assumed to be the answer. If changes are to be made, and it is by no means clear that they are warranted, they should be made by way of amendment to existing legislative schemes.

Conclusion

115.Throughout this brief, an attempt has been made to demonstrate that a diversified corporate enterprise carries with it many economic benefits that flow through into the society which it serves. The conception of society as a collection of equals, economic or otherwise, wholly dominated by governments and by bureaucratic control is not only bland in the extreme but, from a pragmatic and progressive point of view, wholly unrealistic. Moreover, even if no real benefits could be demonstrated, which is not the case, it would by no means follow that the development of large and diversified corporations should be either stifled or restricted except, of course, to the extent, and then only to the extent, that it can be clearly established that they occasion tangible economic or social detriments.

116.If the principle of a free and pluralistic society is accepted — the kind of society envisaged in the Canadian Bill of Rights, namely, "a society of free men and free institutions" — then only the minimum necessary in terms of restrictions or controls can be viewed as acceptable to meet whatever evils can be clearly identified. As has been indicated, a great many restrictions and controls have already been enacted and, in many respects, government intervention has already proven to be detrimental to business growth.

117.What Canada and the Canadian business community need today is not laws imposing greater restrictions or controls but understanding by governments of the real problems that Canadian business must meet and solve if it is to continue to develop in a world in which international boundaries are becoming ever less important. This Commission can play a most important role in creating or contributing to this understanding and it is for this reason that Canadian Pacific is pleased to assist its deliberations in any way that it can.

118.Properly viewed, the protectionism of the Foreign Investment Review Act should not be regarded as a satisfactory solution to Canada's growing sense of economic nationalism and, at best, it should be looked upon as but a temporary stop-gap. What is required is an economic environment that will foster the growth of Canadian enterprise so that it can compete with foreign enterprise on a trans-national basis. The creation of this environment should be regarded as one of governments' first priorities if Canada is to develop Canadian companies that can compete in an effective way with foreign companies on the two-way business streets which exist today and which will be even more in evidence tomorrow.

All of which is respectfully submitted.

Chairman & Chief Executive Officer
Canadian Pacific Limited

MONTREAL, QUEBEC.
October 15, 1975.

This is Appendix A to the brief of Canadian Pacific Limited dated October 15, 1975 submitted to the Royal Commission on Corporate Concentration.

History

The corporate evolution of the Canadian Pacific Railway Company (the name of which was changed to Canadian Pacific Limited by supplementary letters patent dated July 3, 1971 and which is hereinafter referred to by that name or by the initials "CPL") has been reasonably well described in a book entitled "Canadian Pacific", written by John Lorne McDougall and published by the McGill University Press in 1968. McDougall's credentials to write such a book were indeed impressive and his work covers mainly the period from February, 1881, the time of CPL's incorporation, down to the mid-1960's and illustrates rather well how the process of corporate diversification developed into the somewhat imposing network of subsidiaries that constitute a very significant proportion of the Company's present-day assets.

The history of organization and development hereinafter recorded is intended to update McDougall's work and is, in that sense, but a footnote to it. It is therefore assumed that the reader of this brief will be familiar with what McDougall has already said in "Canadian Pacific".

Much of CPL's corporate development can be explained by two basic thrusts that were seen as necessary and taken to preserve the economic viability of the company. The first of these involved a slight change in the emphasis that had previously been given to the importance of the role of the railway and a move in the direction of a broader transportation base. CPL could be no longer just a railway company, if it ever truly had been such, but it must become a transportation company in the full sense of that word. The second thrust involved both the development and acquisition of assets and enterprises that were not related directly to its transportation undertakings.

In regard to the former, CPL became involved in transportation by truck and aircraft and its steamship operations took on a more pronounced international emphasis. Moreover, its early commercial telegraph undertaking, which operated over lines constructed in parallel to its railway lines, gradually evolved into a modern telecommunications system. In the case of the latter thrust and with the initial exception of Cominco Ltd., the company's interests have been fostered mainly through its principal subsidiary, Canadian Pacific Investments Limited, which was incorporated in July, 1962. These basic thrusts will be described in some detail in succeeding pages.

Broadening the Transportation Base

Trucking Operations

The origins of CPL's trucking activities can be traced back to 1884 when CPL acquired all of the shares in the Dominion Express Company, the name of which was changed to Canadian Pacific Express Company in 1926. The original express service was provided by wagon stage and was utilized to develop traffic in advance of the laying of the railway lines and subsequently as a necessary adjunct to the railway service. From these early beginnings there gradually evolved a more extensive trucking undertaking which started in Western Canada with the purchase by CPL in 1946 of Island Freight Service Limited, the largest truck system on Vancouver Island, B.C. The services provided by Island Freight were combined with a system of coordinated rail and highway truck transportation which had been introduced earlier in certain branch line territory of Western Canada in cooperation with CP Express.

In the years 1947 and 1948, Canadian Pacific Transport Company, Limited (CP Transport), which had been incorporated in 1925 to operate busses in connection with CPL's electric lines in Ontario, purchases O.K. Valley Freight Lines Limited and Dench of Canada Limited. These companies held licenses serving mainly British Columbia, Alberta and Saskatchewan. Also during this period, CP Transport acquired in its own name routes in Manitoba and Saskatchewan from Hedges Freighter, Dinsdale Storage & Cartage Limited and Messrs. Fritz and Audette. In 1965, CP Transport purchases Louck's Trucking Service. By this time, all highway licenses were held by or had been transferred into the name of CP Transport, as were a few other licenses obtained later for additional routes in the Prairie Provinces. By the end of 1967, CP Transport operated some 8,960 route miles, essentially in Western Canada.

Bearing in mind the technological advancements in motor vehicles and improved road conditions since the second World War and the continued loss of traffic to truck operators, CPL extended its interest in highway trucking to Eastern Canada and in the midfifties, began investigation into the acquisition of a controlling interest in Smithsons Holdings Limited, a holding company for a group of companies, the enterprises of which were founded as far back as 1919. This group operated over some 3,650 route miles in the provinces of Ontario and Quebec and in the northeastern United States (Smith Transport). In 1958, CPL acquired a 51% interest in Smithsons Holdings Limited with the former principal owners continuing in their executive positions until 1962. With the exception of the United States truck routes, CPL acquired full control of the Smith interests in 1960. In 1974 CPL received a favourable decision from the Interstate Commerce Commission with respect to its acquisition of full control of the subsidiary company holding the truck route licenses in the United States.

Gradual expansion of the trailer-on-flat car (piggyback) service which had been started by CPL in Western Canada continued during the 1950's and, in 1957, a similar service was inaugurated between Montreal and Toronto, thereby extending to Smith Transport and to other eastern truckers the advantages of mass movement by rail with the flexibility of truck operations at terminals. In addition to convenience of service for shippers, piggyback enabled CPL to make the optimum use of railway rolling stock and road haul equipment.

Notwithstanding the decision to move into the highway trucking business, CPL continued to express concern in the mid-1950's with the continued and rapid erosion of merchandise traffic generally to truck competition. Studies at the time indicated that it was necessary to offer all customers a convenient and a complete transportation service and to develop the lowest cost handling methods consistent with service requirements and traffic density. Accordingly, CPL formed Merchandise Services to amalgamate express, less than carload lot (L.C.L.) freight and truck traffic using combined staffs and facilities. Following the completion of additional new facilities, Merchandise Services commenced operations on Vancouver Island on August 1, 1959, and by June 1, 1962, had been expanded eastwards to the Lakehead. At the same time, the related operations of CP Transport and its trucking subsidiaries in Western Canada were systematically contracted to Merchandise Services, together with other trucking services subsequently acquired and CP Transport ceased to operate in its own name until a corporate reorganization took place on January 1, 1972, at which time the operations of Merchandise Services, as originally conceived, ceased to exist.

The administration of CP Transport's nationwide trucking operations, which are conducted through CP Transport in Western Canada and Smith Transport in Eastern Canada, was previously integrated with that of the Express Company. Effective January 1, 1975, it was decided to segregate this administration in order to effect greater economies, as well as to develop consistent policies in the operation of their respective market areas.

Airline Operations

CPL had obtained statutory authority from Parliament in 1919 to own and operate aircraft within and without Canada but it did not participate actively in Canadian air development for some years thereafter.

During 1939, CPL conducted a survey of Canada's privately owned air operations. As a result, arrangements were made for 10 regional airlines operating generally in north-south directions to be acquired by United Air Services Ltd., which company was subsequently acquired by CPL and, in 1942, renamed Canadian Pacific Air Lines, Limited (CP Air). By the end of 1945, CP Air operated approximately 13,000 route miles serving mainly northern communities out of major cities from Vancouver eastwards to Edmonton, Winnipeg, Montreal and Quebec City. During this period, CP Air assisted significantly in the provision of air services for the exploration and development of northern communities in Canada.

At the outset of its involvement in aviation, an Air Services Department of CPL was formed in Montreal and, at the request of the British Government, organized the North Atlantic Ferry Service for the delivery of bombers by air to Britain. The Ferry Service was later transferred to the Ferry Command of the Royal Air Force in 1941. CP Air also operated, on a non-profit basis, six Air Observer Schools and five overhaul plants under the British Commonwealth Air Training Plan during the second World War and, at the request of the Canadian Government, provided air lift services for United Nations personnel during the period 1950 to 1952 to and from the Korean war theatre.

CP Air's first move into international flight operations came in 1948 after it was awarded, two Pacific routes. In 1949, a service was started from Vancouver to Sydney, Australia via Honolulu, Canton Island and Fiji, which service was extended to include Auckland, New Zealand, between the years 1951 and 1969. Later in 1949, the second Pacific service started from Vancouver to Tokyo and Hong Kong (the routes awarded also included China, but due to political hostilities in that country, no service was commenced). During the following years to 1960, CP Air added to its international operations Mexico City, Mexico, and Lima, Peru, from Western Canada in 1953 (extended to Eastern Canada in 1955 in exchange for transfer of routes in Quebec to Air Canada); Amsterdam, The Netherlands, from Western Canada in 1955; Buenos Aires, Argentina, from Eastern Canada in 1956; and Lisbon, Portugal, and Madrid, Spain, from Eastern Canada in 1957 (extended to Rome, Italy, in 1960).

Also, during this period, CP Air was given the right to operate one daily transcontinental flight each way in Canada starting in 1959. It had also upgraded its aircraft with the acquisition of late model piston and turbo-prop aircraft. In 1961, CP Air started the introduction of pure jet aircraft, which by mid-1975 had increased to 29 in number, including 4 Boeing 747 aircraft.

During the early '60's, there were no major additions to CP Air's routes but, by 1964, the Federal Government had undertaken a serious review of its aviation policy as a result of which CP Air was able to add Amsterdam, The Netherlands, in 1965, as a service from Eastern Canada. At that time, CP Air was confirmed as the Canadian flag carrier in the areas of the world it then served. In 1967, a new statement of policy by the Federal Government authorized CP Air to fly a second daily service across Canada. This service was inaugurated early in 1968. The policy statement also enabled CP Air to increase its flights to provide 25% of total transcontinental services by 1970 and to maintain that proportion thereafter. The daily frequency of transcontinental flights was, accordingly, increased to five in each direction during 1969. Also in 1969, CP Air relinquished certain Western Canada services to regional carriers in accordance with Government air policy.

Further additions to CP Air's international routes included Athens, Greece, in 1968; Tel Aviv, Israel in 1971 and Milan, Italy, in 1973. Also at the end of 1973, revisions in the Government's international aviation policy provided the possibility for CP Air to serve North Africa, Iran, Brazil, and new destinations in the Pacific and the Far East, including China. In February, 1975, an air agreement was signed between Canada and Morocco as a result of which CP Air acquired the right to serve Morocco.

However, it should be noted that of 17 new routes made available to Canadian carriers under the 1974 Revision of the Bilateral Agreement with the United States, only one was assigned by the Canadian Government to CP Air, namely, the Vancouver to Los Angeles route on which service started in April, 1975. The inequities and uncertainties resulting from the latest divison of air routes must necessarily raise questions respecting government policy as it relates to the role of private enterprise in the air transportation industry.

Steamship Operations

The shipping activities of CPL commenced in 1886 with the chartering of vessels on the Pacific Ocean to bring traffic from the Orient to connect with the company's recently opened Transcontinental Railway Line. The main cargoes were consigned to cities in Canada, the United States and Europe and, as the traffic proved so valuable, further vessels were either chartered or purchased in the years immediately following.

In the early years, the link with Europe had been completed using steamship services offered by other companies. However, in 1903, CPL purchased 15 vessels of the Beaver Line from the Elder Dempster Company. The North Atlantic service was further enhanced by the construction of additional vessels, together with the acquisition of a 50% interest in the mail contract which had been taken from the Allan Line in 1906. In 1909, CPL purchased the Allan Line, although both fleets continued to be operated separately until being placed under the supervision of one Marine Superintendent in 1914. In the following year, CPL formed Canadian Pacific Ocean Services Limited, a British company, which then took over the operation of the two fleets. The name of this company was subsequently changed to Canadian Pacific Steamships, Limited, in 1921. During 1917, the Allan Line, which then comprised 16 vessels, was amalgamated with the CPL fleet.

Up to the First World War, the ocean shipping operations essentially covered routes from the Orient across the northern Pacific Ocean to Vancouver and routes from Britain and Continental Europe across the northern Atlantic to Quebec City and Montreal. At that time, the Canadian Pacific ocean fleet totalled 23 vessels, consisting of 12 passenger and 7 cargo liners in Atlantic service and 4 passenger liners in Pacific service, all of which were placed at the service of the British government during the war.

Following the end of hostilities, CPL reintroduced its Pacific service, but the Atlantic fleet had been almost eliminated due to enemy action, marine accidents and sales. As a result, CPL entered into a program during the next decade to rebuild its fleets and to replace many of the older vessels acquired from the Allan Line through either the purchase or construction of new vessels. This activity culminated in 1931 when the Canadian Pacific ocean fleets comprised of 24 vessels. With the dramatic replacement of the North Atlantic fleet, CPL significantly expanded its operations, including new passenger services to the Mediterranean, cargo services to the West Indies and regular cruises. CPL also extended its Pacific services in 1931 by the purchase of a 50% interest in Canadian-Australasian Line, Limited, which it formed jointly with the Union Steamship Company of New Zealand, Limited. The new company acquired 2 vessels which were already in operation from Vancouver to Sydney via Honolulu, Suva and Auckland, and for which service CPL had previously been the North American traffic agent.

By the outbreak of the Second World War, retirements had reduced the CPL ocean fleets to 18 vessels, consisting of 14 vessels in the North Atlantic service and 4 in the Pacific service. These vessels were, similarly, placed in war service, as a result of which heavy losses were again suffered. Only three ocean vessels returned to Company service and these were assigned to rebuild the North Atlantic fleet. Consequently, CPL was unable to resume its Pacific service, although an attempt was made to operate a freight service with two vessels from 1952 to 1954 between Vancouver and the Orient. As traffic did not develop, the two vessels were returned to the North Atlantic service. The passenger service of the Canadian Australasian Line to the South Pacific continued after the War with its one surviving vessel until it was discontinued in 1953.

During the late 1950's and early 1960's CPL constructed three modern luxury passenger liners to replace its ageing vessels on the North Atlantic service and to redevelop a passenger cruise market. Due to growing competition from airline travel, the post-war passenger steamship operations proved uneconomic and by 1971, the last of the new passenger liners had been sold. Also, during the post-war period, several smaller freighters were either purchased or chartered for use in the North Atlantic service and, other than for three fast container vessels which are owned by Canadian Pacific Steamships, Limited, these vessels have now been retired from service.

In addition to the three container vessels which operate between Canada and North Western Europe, Canadian Pacific Steamships, Limited owns CP Transport (London) Limited, a wholly-owned subsidiary incorporated in the United Kingdom in 1972 to engage in the road transportation business in England hauling containers to dockside loading facilities. Canadian Pacific Steamships, Limited also owns 75% of the issued share capital of Atalanta Ship Management Services Limited which is a company incorporated in the United Kingdom in 1974 to perform ship management services, bunkers, supplies and repairs for vessels engaged in international trade and as a subsidiary of Canadian Pacific Steamships, Limited it is able to draw on the expertise available within the parent company.

The late 1950's and early 1960's saw a major turning point in the development of ocean shipping with the trend to the construction of larger bulk carriers. Accordingly, Canadian Pacific (Bermuda) Limited was formed in 1964 to engage in all aspects of international deep sea shipping. Being incorporated in Bermuda, the Company was enabled to compete with other international deep sea shipping companies in a way which it was not possible for it to do under Canadian registry or Canadian corporate domicile. The first addition to this fleet was made in November, 1965 and, since then, has grown to a fleet of 22 vessels designed to carry liquid and dry bulk cargoes. Including the smaller container and cargo vessels owned by other subsidiary companies, the combined ocean-steamship fleet now comprises 27 vessels.

Canadian Pacific (Bermuda) Limited owns two wholly-owned subsidiaries, firstly, Ario Insurance Company Limited which was incorporated in Bermuda in 1972 to carry on a marine insurance business and, secondly, Canadian Pacific (Bermuda) Marketing Services Limited which was incorporated in the United Kingdom in 1975. The latter company operates as a marketing agent for vessels owned by the parent company. Its head office is located in London to afford proximity to the London brokerage companies and to the Baltic and Mercantile Exchange. In addition, Canadian Pacific (Bermuda) Limited controls Arion Shipping Corporation, a company incorporated in the Republic of Liberia in 1972, which in turn owns 75% of the issued share capital of Milanion Maritime Services Ltd., a company which was also incorporated in the Republic of Liberia in 1974. The former company is engaged in the ownership and operation of ocean-going vessels including tramp shipping activities for which the latter provides marketing and operating services.

In addition to its ocean-steamship operations, CPL has been engaged in rail-related inland and coastal services since the early 1880's. Initially, three vessels were constructed in 1884 for the Great Lakes service in connection with the construction of the railway, and passenger and freight services were provided continually until the passenger service was terminated in 1966 and the freight service in 1967. Operation of a lake and river service in British Columbia dates back to around 1897 when CPL purchased the property of the Columbia & Kootenay Steam Navigation Company in order to provide a complimentary service to its railway operations in the interior of British Columbia. These operations were subsequently terminated when the related railway branch line operations were abandoned. In 1901, CPL acquired the fourteen vessels operated by the Canadian Pacific Navigation Company on the British Columbia coast, which service has contributed greatly to the development of the industries in the area. As a result of competing services and other forms of transportation, the British Columbia coastal steamship service has been reduced to 5 vessels operating, mainly, between Vancouver Island and the mainland of British Columbia and the United States. With the acquisition of the Dominion Atlantic Railway in Nova Scotia, CPL assumed the Bay of Fundy Steamship service which had been operated since 1827. Early in 1974, the one vessel operating the service between Saint John, New Brunswick, and Digby, Nova Scotia, was sold to the Canadian Government, although CPL has continued to operate the vessel under a management arrangement.

Transportation Related Activities

In recent times it was considered advisable to bring a variety of transportation related services that had been provided in the trucking, rail and shipping areas under one management and, for this purpose, CanPac International Freight Services Limited (hereinafter referred to as "CanPac IFS") was incorporated in April, 1972 under the Canada Corporations Act as a wholly-owned subsidiary of CPL. This com-

pany has taken over and operates the container ground handling facilities that are required by Canadian Pacific Steamships, Limited at Wolfe's Cove in Quebec City and, in addition, it functions as a holding company for a number of other subsidiaries. Among the more important subsidiaries is Maple Shipping Company Limited which was incorporated in the United Kingdom in 1960. That company is an accredited member of the Baltic and Mercantile Exchange in London and specializes in ship brokerage, vessel management services, aircraft chartering and as shipping consultants and port agents. An American subsidiary incorporated in the State of Delaware, American Overseas Containers Express Inc. is a company licensed to consolidate and deconsolidate cargo on behalf of Canadian Pacific Steamships, Limited in the United States and it primarily handles freight into the mid-western United States. Mendelssohn Brothers (Canada) Limited was acquired by CanPac IFS in early 1972 and was subsequently amalgamated with another CanPac IFS subsidiary, Commercial Customs Brokers Ltd., to form Mendelssohn-Commercial Limited, a federal company which now operates customs undertakings related to rail and air traffic. A former Canadian subsidiary of Mendelssohn Brothers (Canada) Limited, Crossworld Freight Ltd., was acquired along with its parent in 1972 by CanPac IFS. This company engages in international freight forwarding, primarily by ship, and since 1974 has also been involved in air freight at Dorval Airport. Other Canadian subsidiaries of CanPac IFS are Intermediate Terminals Warehouses Limited which operates as a highway sufferance warehouse operator and Universal Container Services Limited which operates as Canadian agents for various shipping lines moving goods in containers.

Another transportation related activity that should be mentioned is the provision of consulting services that CPL had supplied to outside interests, mainly in the transportation area, for a number of years. In March, 1970 Canadian Pacific Consulting Services Ltd. was incorporated as a wholly-owned subsidiary of CPL to coordinate and provide services of this kind on an acceptable commercial basis. In addition to the services which this company provides in Canada, it has also undertaken, either alone or in association with others, major consulting projects in Australia, Turkey, the African Continent, Brazil and Indonesia.

Finally, it should be noted that CPL had been a self-insurer for many years and indeed had set aside a fund for this purpose as far back as 1917. It was finally determined that this self-insuring operation could be carried out on a more satisfactory basis by the incorporation of an insurance company which would insure not only the property of the parent company and other subsidiaries but which would also in due course seek and write outside insurance business. In the result, Chateau Insurance Company was incorporated in December, 1974 pursuant to the Canadian and British Insurance Companies Act to write contracts in all classes of insurance except life, mortgage and title insurance and annuities. This company has been licensed to do business at the federal level and in all of the provinces but to date the insurance efforts of the company have been restricted to CPL and its subsidiary companies.

Telecommunications

CPL's statutory charter had authorized it to transmit messages for the public by telegraph or telephone and to collect tolls for doing so. The charter also granted the right to use any improvement that might be invented, subject to the rights of patentees, for telegraphing or telephoning and any other means of communication that might be deemed expedient by the Company at any time thereafter.

These powers were first exercised in 1882 when commercial telegrams were accepted for transmission over newly constructed pole and wire lines, paralleling the Company's rail lines, as they were extended between points in Western Canada west of Fort William. The telegraph department of the Company was formally established in 1886 when the Canadian Pacific Trans-Canada communication system was inaugurated from coast to coast. Until that time, telegrams between Montreal and Vancouver had been routed through the United States.

Canada-wide competition arose in 1921 with the formation of Canadian National Telegraphs, when the Canadian Government acquired and merged three telegraph companies. However, by the 1930s at the insistence of the Canadian Government, a system of co-operation was undertaken between the two companies to avoid uneconomic duplication of services. That unique system has continued to date with the joint provision of a transcontinental wire line network for transmission of radio programs and certain

television network transmission services for Radio Canada, a private telegraph leasing system to industrial users, a "Telex" service throughout Canada and, in 1964, construction of a $42 million transcontinental microwave system to compete with that already in operation by the telephone companies. The partnership which now exists between CPL and Canadian National in the telecommunications field is implemented by means of a formal agreement, the basic provisions of which are that the two companies share equally the revenues earned from pooled services and share equally the cost of services required to earn those revenues.

In 1970. CPL and Canadian National, recognizing the growth potential in the computer service industry and the demand it could generate for the telecommunications service, jointly acquired control of Computer Sciences Canada, Ltd., a Canadian subsidiary of a leading American-based data processing company. Also in that year, the two companies, jointly with other telecommunications common carriers in Canada, entered into a partnership with the Federal Government to form Telesat Canada, which company has now developed and launched two telecommunication satellites for Canadian domestic service. While the CPL group of companies is still the largest single customer of the company's telecommunications services, a wide range of such services is available to the public and various departments of the government and incorporates the latest technological developments in the telecommunications field.

The Non-Transportation Undertakings

Canadian Pacific Investments Limited

Canadian Pacific Investments Limited (hereinafter referred to as "CPI") was incorporated under the laws of Canada on July 9th, 1962 as a wholly-owned subsidiary of CPL and reflected its broadening interest in non-transportation development. CPI's purpose was to assist in and further the process of diversification by encouraging the development of specialized managements to make the ordinary business judgments that are necessarily inherent in the successful development of a variety of business enterprises. By the end of 1962 Canadian Pacific Oil and Gas Limited and Pacific Logging Company Limited had been transferred to it and CPL's interest in Cominco Ltd. followed in 1963.

In November, 1967 CPI successfully offered to the public $100,000,000 of convertible preferred shares with attached share purchase warrants. This was the largest single stock issue in Canada's financial history up to that time and it provided Canadians with an opportunity to share more directly in the development of Canadian resources.

As a result of this issue and the subsequent conversion of a portion of the preferred shares and the exercise of some of the warrants which formed part of it, CPL's ownership of CPI has been reduced to date to approximately 84%. In addition to the subsidiaries already mentioned, CPI owned at the time of the public issue Canadian Pacific Hotels Limited, which owns and operates hotels, Marathon Realty Company Limited which owns and develops real estate, and Canadian Pacific Securities Limited, which was incorporated in October, 1965, as a financing vehicle for subsidiary companies.

The list of subsidiary companies has grown since that date and a somewhat fuller account of CPI's more important subsidiaries is set forth in the following pages under separate headings. This account is then followed by a statement explaining and describing CPI's investment portfolio.

From Canadian Pacific Oil and Gas Limited to PanCanadian Petroleum Limited

Canadian Pacific Oil and Gas Limited (hereinafter referred to as "CPOG") was incorporated in 1958 as a wholly-owned subsidiary of CPL to provide a vehicle by which it could become an active participant in the petroleum industry. Prior to 1958, all agricultural lands and mineral rights were administered by its Department of Natural Resources in Calgary. The agricultural lands were subsequently transferred to Marathon Realty Company Limited and are discussed further in relation to that Company.

Under an agreement of June 9, 1958, between CPOG and CPL, the mineral rights were to pass to CPOG for a share consideration. A subsequent agreement was made on December 11, 1962, between CPOG, CPL and CPI, under which all shares in CPOG previously held by CPL were transferred to CPI. In addition, any shares of CPOG to which CPL became entitled would be issued in future to CPI. Initial transfers of these mineral rights from CPL to CPOG were mainly income producing and all transfers were completed by the year 1963.

In addition to the acreage transferred from CPL, agreements were entered into in 1962 between CPOG and The Esquimalt & Nanaimo Railway Company (hereinafter called the "E & N") under which CPOG would acquire interests in some 2 million acres of mineral rights on Vancouver Island. Most of the mineral rights were purchased from the E & N outright, with CPOG having the right to explore for minerals under the remainder and the option to purchase the minerals in these lands. Acquisition of these rights, which were not considered to be oil or gas bearing, was effected at a nominal cost during the years 1964 to 1967.

Exploration of the E & N lands by both CPOG (subsequent to 1969 by CanPac Minerals Limited upon assumption of responsibility for the development of non-petroleum mineral rights) and outside parties has not met with much success to date.

Other properties acquired by CPOG from CPL were, in 1963, 5,625 shares of the capital stock of Canada Northwest Land Limited and, in 1964, the 79.5 per cent interest in Lethbridge Collieries Limited. Lethbridge Collieries owned and operated a coal mine in Alberta and had constructed a char plant to use coal from the mine. Following a strike in 1965, operation of the mine was suspended and coal was purchased from other sources for purposes of the char plant. Due to marketing difficulties and operating inefficiencies, the carbonizing operation was suspended in 1966 and the plant was subsequently sold in 1972 (the ownership of shares in Lethbridge Collieries Limited also passed from CPOG to CanPac Minerals Limited in 1969, as discussed later).

In November, 1961, CPOG entered into an agreement with Great Canadian Oil Sands Limited whereby it had the right to acquire up to 51 per cent of the common stock of the latter company. CPOG subsequently entered into an agreement in 1962 with Sun Oil Company Limited and Canadian Oil Companies, Limited, whereby the latter two companies obtained an option to acquire one-third each of CPOG's interest in the agreement with Great Canadian Oil Sands. The options under these agreements were subsequently exercised and, together with additional shares acquired, CPOG ultimately held a total of 124,241 shares of Great Canadian Oil Sands Limited. Because CPOG was not a party to the lease on which the development by Great Canadian Oil Sands Limited was to take place and because the economics appeared to be unfavourable, it disposed of its total shareholding in that enterprise.

In connection with the non-petroleum activities of CPOG, a 40 per cent increase in Ardley Coal Limited was acquired during 1965, the remaining 60 per cent being owned by Dynamic Power Corporation Ltd. Ardley Coal Limited was formed to develop large reserves of strippable coal lying some 20 miles east of Red Deer, Alberta. Initially, studies were undertaken regarding the feasibility of constructing a large-scale thermal power plant in the area for electrical power transmission to the United States. Nothing materialized from these studies and, as discussed later, the 40 per cent interest in Ardley Coal Limited was transferred to CanPac Minerals Limited in 1969 (CanPac Minerals Limited subsequently acquired full control in Ardley Coal Limited in 1971 when it purchased all the issued shares of Dynamic Power Corporation Ltd.).

Prior to 1966, CPOG confined its activities mainly to the lands initially transferred to it by CPL and lands immediately adjacent to them, the main exception being its 25 per cent participation through a newly formed subsidiary company, Canadian Pacific Oil and Gas of Canada Limited, in the exploration of some 800,000 acres of rights in the British area of the North Sea jointly with Home Oil Company Limited (50 per cent) and Alminex Limited (25 per cent). This program was not successful and the jointly held rights were allowed to expire. Investments in related fields were acquisition in 1962 of a 50 per cent interest in Huron Pipelines Limited, which company held permits to construct and operate petroleum products pipelines between Edmonton and Red Deer and between Calgary and Lethbridge in Alberta. Construction of these pipelines was never started. Under an agreement entered into in 1964, CPOG and Great Northern

Oil Company formed Bow River Pipe Lines Ltd., which company constructed an initial 267 mile oil pipeline from Taber to connect with the Interprovincial Pipeline Company's line at Hardesty. CPOG transferred its 50 per cent interest in Bow River Pipe Lines Ltd. to CPI in 1969 and CPI, in turn, sold that interest to Great Northern Oil Company in 1973.

Starting in 1966, CPOG gradually expanded its operations in Canada to areas outside its initial land holdings, such as the Northwest Territories, northern Alberta and northeastern British Columbia. In addition CPOG was active in promoting the development of Panarctic Oils Ltd., which initially held rights in some 43 million acres of land in the Arctic Islands. CPOG and Cominco Ltd. each own approximately a 9 per cent interest in Panarctic Oils Ltd.

On October 31, 1964, the Montreal Trust Company, on behalf of CPOG, offered to purchase at least 500,000 of the outstanding shares of Central-Del Rio Oils Limited (CDR) at $8.70 per share. As a result of the offer CPOG acquired a 25.4 per cent interest in CDR, payment for which was provided from the proceeds of a stock issue to CPI. The CPOG offer followed the initial purchase of CDR shares through the CPI portfolio earlier in 1964. By the end of 1964 the combined ownership of shares in CDR amounted to 43.5 per cent. The combined ownership was increased to an interest of 51.6 per cent by early 1969 and by an agreement dated August 28, 1969, CDR acquired all the issued and outstanding shares of CPOG in consideration of the allotment and issue to CPI of 23,708,000 fully-paid shares of CDR, thus increasing CPI's interest in CDR to 89.3 per cent effective October 1, 1969. By Letters Patent issued on December 31, 1971, CPOG and CDR were amalgamated and the name of the combined companies changed to PanCanadian Petroleum Limited.

As a prerequisite to transferring the shares of CPOG to CDR, a new company, CanPac Minerals Limited was incorporated as a wholly-owned subsidiary of CPOG for the purpose of acquiring certain coal and other mineral properties from CPOG, including the interests held in Lethbridge Collieries Limited and Ardley Coal Limited. All the shares of CanPac Minerals Limited were transferred to CPI as a dividend in kind prior to finalizing the merger transaction. These non-petroleum mineral properties transferred to CanPac Minerals comprised producing mineral rights and acreage on which a substantial amount of exploration had been completed. In addition to large coal interests in Alberta, significant potash acreage was obtained in Saskatchewan and additional mineral acreage underlying the E & N lands in British Columbia. A more complete review of CanPac Minerals Limited is contained later in this brief.

Subsequent to 1969, the new company, Pan-Canadian Petroleum Limited, significantly expanded its operations both in Canada and internationally, either directly or through newly formed subsidiary companies. Other than for shares issued in connection with the acquisition of the Canadian and United States assets of Mana Resources Inc. in 1971, capital expenditures were met out of internally generated funds, bank loans and a debenture issue of the company.

Capital expenditures, on exploration, development and production facilities and equipment increased from a total figure of $22,403,000 in 1970 to a total of $49,316,000 in 1974. The net daily production of crude oil in 1974 amounted to 36,408 barrels. Net daily production of natural gas showed a continuing increase over the years to a total of 226 million cubic feet by the year 1974. Total net proven and probable reserves of crude oil at the end of 1974 amounted to 176.3 million barrels and net proven and probable reserves of natural gas as of the same date amounted to 2,298 billion cubic feet.

The healthy growth of PanCanadian Petroleum is apparent today and the benefits, both economic and social, might well be favourably compared with other similar petroleum corporations.

CanPac Minerals Limited

CanPac Minerals Limited was incorporated as a wholly-owned subsidiary of CPOG in 1969 for the purpose of acquiring, exploring and developing mineral properties. Prior to the merging of interests of CPOG and Central-Del Rio Oils in the latter part of 1969, certain coal and other non-petroleum mineral properties were acquired from CPOG, together with the interest held in Lethbridge Collieries Limited and

Ardley Coal Limited. The mineral rights transferred were those currently producing and others on which a substantial amount of exploration work had been undertaken. These rights comprised mainly coal properties in Alberta, potash bearing lands in Saskatchewan and mineral rights, excluding coal, in the E & N lands on Vancouver Island, British Columbia. In addition, joint exploration agreements with Gunnex Limited and Tombill Mines Limited were assigned to CanPac Minerals Limited.

CPOG continued to hold a substantial amount of non-petroleum mineral rights which, as of 1969, had not been extensively surveyed or explored. In view of the growing importance of Western Canada's coal reserves, PanCanadian Petroleum is currently undertaking a program to evaluate the tonnage still lying under its properties.

The mining staff of CPOG was transferred to CanPac Minerals Limited upon incorporation of the latter and, essentially, continued the exploration activities originally started by CPOG. Income was initially and has continued to be essentially from coal and potash royalties and lease rentals.

In the early years, activities of the company were generally confined to the southwestern area of Alberta in an attempt to locate and develop deposits of coking coal. In later years, these activities were extended to include the exploration of thermal coal deposits. Uranium and base metal exploration jointly with Gunnex and Tombill Mines was continued for a number of years, but nothing of economic significance was found. Exploration activities for copper was undertaken by the company on the Mount Richards property on Vancouver Island, but the results were unsatisfactory and the claims were allowed to expire in 1972. Exploration continued to be undertaken by others on the E & N lands owned by the company on Vancouver Island but, while the results were encouraging, no major discovery was made.

A new Act, the British Columbia Mineral Land Tax Act, which became effective in 1974, substantially increased the taxation of all privately owned mineral rights in British Columbia. Accordingly, in conjunction with Cominco Ltd., the company undertook an evaluation of its E & N fee lands held which totalled 160,955 acres and, after discussion with all the lease and agreement holders (all of whom were obliged to pay the increased mineral taxes) all but a total of 25,316 acres were surrendered to the Crown before the end of 1973.

With the world demand for coking coal running at a high, CanPac Minerals initially concentrated its exploration activities in Alberta on the Isolation Ridge property and, to a lesser extent, at Panther River, Kananaskis and Sheep Creek. These activities followed the signing of a fifteen year contract with the Japanese for development of the Fording property in British Columbia, in respect of which 32,735 acres of Crown licenses held by the company had been allotted to the operator, Fording Coal Limited, under a royalty arrangement. (Fording Coal is owned 60 per cent by CPI and 40 per cent by Cominco Ltd.) Prior to the sale of a 40 per cent interest in CanPac Minerals Limited to Cominco Ltd. in 1972, as discussed later, the company's interest in the Fording Coal property was transferred to CPI.

As a result of the changing world demand for coking coal and the control exercised by the Alberta Energy Resources Conservation Board, activity with respect to the exploration and development of coking coal properties substantially diminished by the end of 1974, with the exception of the Isolation Ridge property.

Starting in 1971, CanPac Minerals began to concentrate its activities on the exploration and development of thermal coal reserves. During that year, it increased significantly its interest in Crown and freehold acreage in the Province of Alberta, both to complement its existing ownership in fee lands and to assemble economically viable working acreages.

Early in 1971, extensive negotiations took place respecting the development of the Ardley Coal field for the manufacture of power. Ardley Coal Limited, owners of the coal field, was then owned 60/40 per cent by Dynamic Power Corporation Ltd. and CanPac Minerals Limited. These negotiations were not successful. Subsequently, CanPac Minerals negotiated the purchase of Dynamic Power Corporation Ltd. in 1971, through which full control of Ardley Coal Limited was obtained, together with significant interests in coal fields at Trochu, Alberta and at Estevan, Saskatchewan. With this acquisition, CanPac Minerals

added some 336 million tons of recoverable coal to its reserves and assumed a 20 per cent profit overriding royalty on approximately 13,000 acres of coal lands being readied for production at Estevan.

As a result of its original holdings and subsequent acquisitions of coals lands, the company now owns mineable blocks in Alberta at Ardley, Brooks, Lethbridge, Morinville, Tofield, Sheerness, Battle River, Wabamun, and Dodds-Round Hill. An agreement was signed with Calgary Power in 1972 for the development of the Wabamun coal field, under which substantial royalty income to the company commenced in 1973. Similar negotiations are proceeding with Calgary Power for the development of coal reserves at Dodds-Round Hill in connection with a similar thermal power plant and joint submissions are currently before the Alberta Energy Resources Conservation Board. Studies are currently underway for the development of the Brooks field for the supply of thermal coal to Ontario Hydro. At Lethbridge, a major drilling program is being conducted to delineate underground mineable reserves adjacent to the former producing mines owned by Lethbridge Collieries Limited, in which both Ontario Hydro and several Japanese companies have expressed interest. Studies are being undertaken with TransCanada PipeLines Limited to test the use of the Ardley coal field for gasification and, in connection therewith, CanPac Minerals is participating in joint studies on gasification being undertaken by the Stanford Research Institute.

As a result of its major acquisition program, the proven, probable and possible reserves of coking coal increased from 94.3 million tons in 1970 to 133.7 million tons in 1974. Similarly, the estimated reserves of thermal coal increased from 600.0 million tons to 1,668.2 million tons. The future use of coal as a major source of energy for the Canadian economy and its value as a major product for export is likely to have important business ramifications for the transportation industry.

Pacific Logging Company Limited

This company (hereinafter referred to as "Pacific Logging") was incorporated in April, 1941 under the Companies Act of the Province of British Columbia for the purpose of taking over certain logging rights-of-way which had been built by The Esquimalt and Nanaimo Railway Company (E & N) for logging companies and which had subsequently reverted to it. These rights-of-way were leased by Pacific Logging to two logging companies for annual rents equal to expenses incurred on its behalf by the E & N and the lessees paid the rents directly to the railway company. Accordingly, Pacific Logging was not required to receive or disburse funds and remained inactive from the date of incorporation until 1962, when the company was re-activated for its current purpose of engaging in logging and related activities.

A major activity of Pacific Logging, following its re-activation in 1962, was to acquire from the E & N certain of its unsold timberland acreage on Vancouver Island. Accordingly, a total of some 238,000 acres was acquired by Pacific Logging during the years 1962 to 1969. This figure includes some 20,200 acres of land in the Robertson River Valley area which were received from the British Columbia Government in 1967 in exchange for the transfer to the province from the E & N of the Forbidden Plateau and Block 1012 lands lying to the north of Lake Cowichan.

In connection with the purchase of the E & N timberlands, Pacific Logging is required to pay a 25% tax to the British Columbia government under the Esquimalt and Nanaimo Railway Belt Land Tax Act. The liability against each purchase is payable in instalments over a number of years.

From 1962 to the end of 1974, Pacific Logging has investigated opportunities and expanded its operations beyond the E & N lands mentioned above either through acquisition of other timberland interests or by investment in companies having related operations. Funds to finance these activities were provided, initially, from stock issues and, later, through loans from Canadian Pacific Securities Limited and a commercial bank.

Between 1962 and 1972, Pacific Logging purchased a 49.9% interest in Sooke Forest Products Limited, which company operates a sawmill in British Columbia and, through subsidiary companies, has major investments in related lumber and lumber handling operations. In 1963, a 49% interest was acquired in T.W. MacKenzie Logging Ltd., one of the most efficient loggers on Vancouver Island, the operations

of which were closely associated with Pacific Logging lands. Full ownership in MacKenzie was acquired in 1971.

Also in 1963, Pacific Logging acquired all the assets of Passmore Lumber Company Limited and its associated companies which were located in the Slocan Valley of British Columbia. These assets comprised logging and sawmill operations based on Crown-owned timber holdings and, following acquisition, Pacific Logging constructed a new sawmill to improve production. In order to consolidate the operations of Pacific Logging on the British Columbia coast, the Slocan operation was sold in 1970. In 1967, the Canadian assets of Georgia-Pacific International Corporation, a United States Company, were purchased by Pacific Logging and these included 20,000 acres of fee lands and 29,000 acres of timber licenses located on Vancouver Island and the West Coast of British Columbia.

Pacific Logging continued to expand its interests in the forest industry. In 1967, Ladysmith Forest Products Limited, in which Pacific Logging initially held a 10% interest, opened a new lumber mill at Ladysmith, Vancouver Island, on land leased from Pacific Logging. Pacific Logging's interest in this company was increased to 20% in 1971 as a result of the above mentioned acquisition of full owner in T.W. MacKenzie Logging Ltd. Pacific Logging owns a 20% interest in Cipa Sawmills Ltd. which opened a new sawmill at Nanaimo, Vancouver Island, in 1969. This mill produces lumber for the Japanese market. An 80% interest is owned in Saltair Lumber Company Limited, which opened a new sawmill at Ladysmith in 1972, located adjacent to that owned by Ladysmith Forest Products Limited.

At the end of 1974, Pacific Logging owned approximately 300,000 acres of fee lands, including those acquired from E & N. In addition, the company holds under license cutting rights to approximately 450 million board feet of timber and cutting rights amounting to 44 million board feet on a Close Utilization quota basis.

Production of logs from company lands increased from 68.4 million board feet in 1963 to 310 million board feet in 1973, and reduced to 254 million board feet in 1974. Production of lumber passing through mills in which Pacific Logging has an interest increased from a level of 43 million board feet in 1964 (Sooke Forest Products Limited) to a level of 357 million board feet in 1973 and reduced to 290 million board feet in 1974.

Although Pacific Logging has become the owner of a large amount of timberland acreage and cutting rights since its re-activation in 1962, there have been no major acquisitions of any type of timber tenure since the balance of the E & N timberlands were acquired in 1969. As an obvious extension of its logging operations, the main diversification of Pacific Logging has been into lumber operations, both to enable participation in the processing of the logs and to comply with local government attitudes with respect to the development of secondary industry. The present operations of Pacific Logging are still small in relation to those of the major integrated forest industry companies.

Marathon Realty Company Limited

Marathon Realty Company Limited (hereinafter referred to as "Marathon") was incorporated in November, 1963 as a wholly-owned subsidiary of CPI, with broad powers to carry on or invest in the real estate business and related operations. The initial purpose of this company was to manage and develop the real estate interests to be purchased from CPL and, as the first phase of its activities, it took over in 1964 all the surface lands administered by CPL's Department of Natural Resources in Calgary (other responsibilities of this Department were the administration of sub-surface mineral rights, of which the transfer to CPOG along with the related staff had been completed in 1963). The main portion of these lands were farmlands situated in Alberta and Saskatchewan, together with outstanding contracts and certain farm structures. The lands acquired at this time also included potential industrial land at Ogden Shops and Mayland, both in Calgary, and certain tracts of undeveloped land located adjacent to the main line track in the Banff National Park at Eldon, Sawback, Castle Mountain and Cascade Mountain.

During the years 1966 and 1967, a program was completed whereby all lands surplus to operating requirements of CPL were purchased by Marathon. In addition, Marathon obtained an option to acquire other lands from CPL if they became surplus to railway requirements before 1975.

Since its incorporation, Marathon has demonstrated a vigorous growth pattern using as a base the assets transferred from CPL. In 1973, the company adopted the policy of acquiring lands for future development purposes and also revenue-producing properties.

At the end of 1974, Marathon owned and operated 16 office buildings, 24 shopping centres, 70 industrial buildings in four industrial parks and at other locations, and 1100 residential units in eight locations. Since incorporation, the company has acquired an equity position in several joint ventures for purposes of developing its lands. These included a 25% interest in Foundation-Scottish Properties Ltd., which company leased from The Scottish Trust Company, a Marathon subsidiary now dissolved, the land to construct the Place du Canada office building in Montreal (the other 75% interest in that company was acquired from Foundation Company of Canada in 1968), a 50% interest in Husky Tower Limited, owners of the Observation Tower erected as the first stage of the Palliser Square Development, Calgary (the remaining 50% interest was acquired from Husky Oil Canada Ltd. in 1970, following which the name was changed to Calgary Tower), and a ⅓ interest in Project 200 Investments Limited, which was incorporated to develop CPL's lands and air rights along the Vancouver waterfront in partnership with Woodward Stores and Grosvenor-Laing. Marathon also held the controlling interests in the development of Strathcona House and Langara Gardens, residential developments in Edmonton and Vancouver, full ownership in which was subsequently acquired.

A further significant investment was the acquisition of a 50% interest in Marathon Aviation Terminals Limited, which company was incorporated in 1958 to hold and develop air cargo terminals, aircraft hangars and other airport facilities, which company is currently the largest lessor of these types of facilities in Canada (facilities being owned at Dorval and Toronto airports, and a flight kitchen is presently being constructed for lease to CP Hotels at the Mirabel airport and a new hangar for CP Air at Toronto airport).

Major studies in which Marathon has been participating over the years and which could involve major expenditures by the company should they proceed as planned include, False Creek and the continuation of the Project 200 development in Vancouver, Metro Centre in Toronto and the Angus and Westmount projects in the Montreal area.

In the result, it can be said that Marathon has competed and expanded as a profit centre subject to the same economic restraints as other Canadian real estate companies and, through the investments it has made or caused to be made, has contributed to the development and prosperity of many communities across Canada.

Canadian Pacific Hotels Limited

This company (hereinafter referred to as "CP Hotels"), was incorporated in July, 1963, for the purpose of consolidating, developing and expanding the hotel operations and related activities being carried on by CPL. The history of the hotel system dates back to the incorporation of CPL and its operations were, initially, closely allied to the requirements of rail passengers.

The first hotels of Canadian Pacific were built in the Rocky Mountains, starting in 1886, and included the original structures that are now known as the Banff Springs Hotel and Chateau Lake Louise, and also the original Hotel Vancouver. The first hotel in Eastern Canada was the Chateau Frontenac, the first section of which was opened in 1893. From that period, CPL constructed or took interests in numerous hotels across the country to complement its passenger rail operations. For various reasons, many of these were later disposed of, particularly by the time of the 1939-45 War. Changes in travelling patterns and the development of improved highway systems necessitated a further evaluation of the existing hotel system. At the time that CP Hotels was incorporated, CPL owned and operated the following hotels.

Name	Present Structure Built	No. of Rooms
*Empress Hotel, Victoria	1908, 1911 and 1929	416
Banff Springs Hotel, Banff	1927 and 1928	527
Chateau Lake Louise	1925	357
*Hotel Palliser, Calgary	1914 and 1929	415
*Hotel Saskatchewan, Regina	1927	252
Royal Alexandra, Winnipeg	1906	445
*Royal York, Toronto	1929 and 1959	1418
*Chateau Frontenac, Quebec City	1893, 1899, 1909 and 1921-26	642
Algonquin Hotel, St. Andrews	1915	200
Digby Pines Hotel, Digby	1931	189

*Properties subsequently transferred to CP Hotels.

Initially, CP Hotels undertook the management of two small motor hotels, the contracts for which were both terminated the following year. At the same time, the company was entering into various management or lease arrangements for the operation of other hotels and restaurant facilities being built by others and also proceeded with the construction of the Chateau Champlain in Place du Canada, Montreal, on land leased from The Scottish Trust Company. During 1965 and 1966, the Empress Hotel, Hotel Saskatchewan, Royal York Hotel and Chateau Frontenac, together with the Windsor Station restaurants (which included the original CP Air catering facilities) and certain minor investments in other hotel companies, were transferred from CPL to CP Hotels.

Of the remaining hotels mentioned above, the Algonguin and Digby Pines Hotels were not transferred to CP Hotels in view of the intent to dispose of the properties, which was done in 1965 and 1970 respectively, and similarly, the Royal Alexandra Hotel was retained by CPL in view of the then uncertainty as to its future operation (this hotel was subsequently demolished in 1971). The Palliser Hotel was sold to CP Hotels in 1974.

Both the Banff Springs Hotel and the Chateau Lake Louise are located on lands leased from the Federal Government, which leases cannot be assigned without its approval. Also in 1974, CP Hotels purchased or leased from CPL and its wholly-owned subsidiary, Commandant Properties, Limited, the Chateau Montebello which had previously been operated privately as the Seigniory Club.

Including the above mentioned properties, CP Hotels now owns or operates under either lease or management contracts, eighteen hotels in Canada and one in Germany. In addition, it operates several restaurant facilities in Canada and also flight kitchens at Montreal, Toronto and Vancouver airports and in Mexico City. Two additional hotels are presently being constructed on land leased in Peterborough

and at the new Mirabel International Airport. In addition, Marathon Aviation Terminals is constructing a flight kitchen at Mirabel Airport for lease to CP Hotels.

To provide for its expansion plans on an international basis, CP Hotels has caused to be incorporated a number of foreign subsidiary companies. The three major subsidiaries, which in turn hold investments in other companies, are the following:

1. Canadian Pacific Hotels (Nederland) B.V. It is intended that this company hold the major interest of CP Hotels located in Europe and will be the operating arm through which all management, technical, consulting and other income will flow to Canada. While incorporated in the Netherlands, this subsidiary also has a branch office in the United Kingdom.

2. C.P.T.A. Participants Limited. This company is incorporated in Ontario and is intended to be the investment vehicle through which CP Hotels, and proposed partners, will develop and operate a new hotel in Tel Aviv, Israel. (CP Hotels is currently operating a hotel in Jerusalem, Israel, and the related contract is held by the Netherlands Company).

3. Canadian Pacific Hotels (Mexico), S.A. de C.V. This company was incorporated in Mexico to hold related investments and carry on operations of CP Hotels in that country. The management contracts for the Chateau Royale and Acupulco Royale, which have now been terminated, were held by this subsidiary and the only investment now held is a 40% interest in the Mexico flight kitchen.

In addition to personnel located at the present international operations in Hamburg and Jerusalem (hotels) and in Mexico City (flight kitchen), international headquarters offices are also located in Mexico City, Paris and Tel Aviv.

Other than for the promotional benefit arising out of being associated with the Canadian Pacific group of companies, the development and expansion program of CP Hotels subsequent to its incorporation in 1963 has been undertaken, essentially, using the financial base provided by its assets and the potential return therefrom. With the dramatic expansion of air travel in recent years, CP Hotels has followed the lead taken by other major hotel chains in developing their operations both in Canada and internationally to meet the growing demands of the travelling public. In addition to offering improved services, it should be emphasized that the development of new operating units involves definite business and social benefits to the local communities in which they are located.

Cominco Ltd.

By the end of the 1950s, Cominco Ltd. (hereafter referred to as "Cominco") was predominantly a lead, zinc and fertilizer producer with operations in Canada and the United States. It also moved into the production of intermediate and end metal products and ceased to be purely a supplier of raw materials. To support its marketing organization, Cominco American Incorporated was incorporated in the United States in 1956 and a controlling interest was held in the operation of storage and dock facilities at British Columbia coast ports through Pacific Coast Terminals Co. Ltd.

With the increasing demand for electric power at its Trail, B.C. operations during the first World War, Cominco became the largest customer of West Kootenay Power and Light Company Limited and, in order to guarantee future requirements, purchased all the common stock in that company. This subsidiary owns and operates a hydro-electric plant on the Kootenay River serving a wide area of customers in south-eastern British Columbia and also manages, under contract, five plants subsequently built and owned by Cominco.

Beginning in the 1960s, Cominco followed an active exploration program towards the development of new lead, zinc and fertilizer-related properties both in Canada and abroad, and has diversified its interests into the production of other metals, coal and petroleum properties. At the same time, a substantial research program was continued by Cominco in co-operation with the Canadian Government and United

States research institutes for the purpose of developing new metal products and other uses for the company's metal production, particularly lead and zinc. In this connection, Cominco opened a research centre near Toronto in 1964.

Along with an expansion of existing interests in lead, zinc, silver, gold and other similar metals, initial diversification by Cominco into iron and steel production occurred in 1961 with the completion of the first pig iron furnace at Kimberley, which was followed in 1964 by the completion of a second furnace. Also in 1964, Cominco acquired a 100% interest in Western Canada Steel Limited, which company operated a steel plant in Vancouver and held a 51% interest in Hawaiian Western Steel Limited of Honolulu. By 1966, a new rolling mill for Western Canada Steel Limited was completed and that company had acquired the facilities of Western Rolling Mills at Calgary. Also in 1966, Cominco completed construction of a steel ingot plant at Kimberley, production from which was shipped to Western Canada Steel Limited. These developments represented the first fully integrated steel operation in Western Canada whereby finished rolled steel products were produced from British Columbia ores.

From the early 1960s to date, the program of exploration and development of zinc, lead and other ore reserves has resulted in the establishment of several mining subsidiaries. These include interests in lead and zinc operations at Pine Point, Northwest Territories, through Pine Point Mines Limited, at Magmont, Missouri, through Cominco American Incorporated, in Greenland through Vestgron Mines Limited, and in Spain through Exploracion Minera Internacional (Espana) S.A. Interests in the operations for other ore reserves include gold in the Northwest Territories adjacent to Cominco's Con Mine through Rycon Mines Limited, tin, tungsten and gold in Australia through Aberfoyle Limited, and phosphate rock for fertilizer from Montana through Cominco American Incorporated. Substantial reserves of copper ore in British Columbia have been delineated and are owned through Valley Copper Mines Limited (N.P.L.). In addition, potential lead and zinc reserves are owned in the Northwest Territories through Arvik Mines Ltd. Permits are held for the exploration and mining of diamonds in Central Africa through Société Centrafricaine d'Exploitation Diamantifère and an aggressive exploration program for additional lead, zinc, copper and silver deposits is continuing in the Northwest Territories through Bathurst Norsemines Ltd. (N.P.L.). Cominco is also carrying out exploration programs in Mexico, the Philippines, Brazil, Greece, Italy, Germany, and Ireland.

A 40% interest in a zinc smelter and refinery located in India was acquired in 1963 through Cominco Binani Zinc Limited and a 45% interest in a lead smelter in Japan was acquired through Mitsubishi Cominco Smelting Company Limited, which companies obtain part and all, respectively, of their concentrate requirements from Pine Point Mines. Cominco diversified further into metal processing through the acquisition in 1965 of a 50% interest in The Canada Metal Company Limited which manufactures base metals and alloys at plants located at major points across Canada and in 1966 through a 50% interest in Mazak Limited, a United Kingdom company which manufactures and markets zinc alloys for diecasting in the United Kingdom. In addition to the marketing facilities available through Cominco American Incorporated, the marketing of Cominco products is handled in Europe through Cominco GmbH, a German company, and Cominco (U.K.) Limited.

In 1969, Cominco opened a new potash mine at Vade, Saskatchewan, which was designed to balance the fertilizer components available to the Company. While the mine was closed in 1970 because of flooding, it was brought back into production by 1972. Fertilizer operations of the company are currently being expanded through the construction of a large ammonia-urea complex near Carseland, Alberta, which facility is expected to be in production by the end of 1976.

The diversification by Cominco into other nonmetal activities resulted in its participation in 1966 with Canadian Pacific Oil and Gas Limited and Dome Petroleum Limited in the reorganization and activation of Panarctic Oils Ltd., in which company Cominco now owns an interest of approximately 9%.

In 1969, Cominco acquired a 40% interest in Fording Coal Limited, which company was incorporated jointly with Canadian Pacific Investments Limited in December, 1968 for the development of coal deposits owned by CanPac Minerals Limited for export to Japan. Cominco further consolidated its position in energy resources during 1972 when it acquired a 40% interest in CanPac Minerals Limited which com-

pany, in addition to owning the licenses on the Fording property, owns other substantial coal rights in Alberta and coal and potash rights in Saskatchewan. In addition to its interest in Fording Coal Limited, Cominco holds the contract for the management of the property of the company.

The Algoma Steel Corporation, Limited

During 1973, CPI was offered 2,902,113 shares of the common stock of The Algoma Steel Corporation, Limited (hereinafter referred to as "Algoma"), from its principal shareholder, Mannesmann A.G. of West Germany. These shares were subsequently acquired in September of that year and, together with additional shares purchased on the open market, a total of 2,982,111 shares of that company were owned as of the end of 1973 which represented a voting interest of 25.7%.

During the period January 1 to May 31, 1974, CPI purchased an additional 417,850 shares of Algoma at prices averaging between $24 and $25 per share. On June 14, 1974, CPI made an offer to the holders of Common Shares of Algoma to purchase 2,500,000 shares at a price of $32 (Canadian currency) which, it was stated, would increase the holdings of CPI in Algoma to just over 50%. The price offered of $32 per share was compared with the monthly high and low prices per share reported on the Toronto, Montreal and Vancouver Stock Exchanges for the period December 1, 1973 to the date of the offer, which showed a range of $18-¼ — $28-¼. As a result of the offer, CPI acquired 2,500,000 additional shares of Algoma at a cost of some $80 million, bringing to 50.5% its ownership in that company. The financial results of Algoma were, accordingly, consolidated with those of CPI from July, 1974. Algoma is the third largest producer of steel in Canada ranking behind Stelco and Dofasco and currently holds approximately an 18% share of Canadian mill shipments.

Algoma's coal requirements are met largely by its wholly-owned United States subsidiary, Cannelton Industries, Inc. which operates in West Virginia. In addition, Algoma owns 43% of the issued share capital of Dominion Bridge Company, Limited. This company is engaged directly and through subsidiaries in Canada or the United States, in the design, fabrication and erection of structural steel for bridges and buildings. That company also operates a steel producing mill and distributes steel and miscellaneous construction products through a chain of Steel Service Centers. Subsidiaries of Dominion Bridge Company, Limited manufacture heavy construction and materials handling equipment, heavy marine products and preengineered metal buildings in the United States, and are engaged in the real estate development and construction fields in the Bahamas.

The Great Lakes Paper Company, Limited

CPI first obtained an interest in The Great Lakes Paper Company, Limited (hereinafter referred to as "Great Lakes"), in 1964 when it acquired 3.81% of its common shares then outstanding. This level was maintained essentially until 1967 when the purchase of additional shares brought the holding up to slightly more than 11%. Share ownership was increased to 25.7% in 1963 and to 42.2% in 1969. Shareholdings were increased in 1970 to just below 50% of the outstanding stock which was again increased to 53.4% in 1971 providing CPI with control of Great Lakes.

Great Lakes manufactures newsprint, unbleached sulphite pulp, bleached kraft pulp and stud lumber. In 1973, the company embarked on a major expansion and diversification program which is expected to cost a total of approximately $170 million when it is completed in mid-1976, The expansion program includes a new 250,000 ton/year bleached kraft pulp mill to be integrated with the existing 200,000 ton/year mill, the construction of a particleboard-waferboard plant, and expansion of stud lumber capacity to about 200,000,000 board feet/year. The company's plant is situated in Thunder Bay, Ontario and its buildings comprise some 21 acres of floor area.

Timber areas presently held by the company under renewable licenses from the Ontario Government cover an area of some 14,250 sq. miles. These timber areas are adjacent to the company's mill and it is

estimated they will provide an annual yield, on a perpetual basis, sufficient to satisfy the company's increased requirements following the completion of the expansion program.

The investment in Great Lakes gives CPI additional representation in the pulp and paper field and balances other holdings. That company has acknowledged the support and participation by CPI in the development of its expansion program. In addition Canadian Pacific Securities Limited has made a line of credit available to Great Lakes to facilitate its expansion program.

CanPac Waste Disposal Systems Limited

As a result of work undertaken by CPL with the city of Toronto on the removal of waste from that city, it was decided that CPI incorporate a subsidiary which would act as a contractor to municipalities in respect of removal of waste, subcontracting these functions when necessary, depending on costs and service. It was also felt that recycling offered potential and should be thoroughly investigated.

Accordingly, CanPac Waste Disposal Systems Limited (hereinafter referred to as "CanPac Waste") was incorporated in March 1974 as a wholly-owned subsidiary of CPI with powers to carry on the business of waste disposal in all its branches, including the treatment of waste and the acquisition and maintenance of facilities required therefor.

In November 1974 CanPac Waste acquired from Shore to Shore Corporation Limited all of the outstanding shares of Rothsay Concentrates Co. Limited, which company is engaged in the rendering industry in Ontario and, itself, wholly owns Dynamic DisposAll Trucking Limited which is a small waste disposal operation.

As a condition of the agreement with Shore to Shore Corporation Limited, Shore to Shore was to arrange for the transfer to a new company to be jointly owned by it and CanPac Waste of its 55% interest in Steirian Rendering Company mbH, an Austrian company engaged in the rendering of animal waste and owning a small plant in that country. This joint venture was achieved through the incorporation in November 1974 of a new Ontario company, International By-Products Limited, in which company CanPac Waste owns a 51% interest and Shore to Shore a 49% interest. This Ontario company, which was incorporated as a holding company, in turn wholly owns a newly formed Netherlands subsidiary, International By-products B.V., to which the aforementioned 55% interest in Steirian Rendering Company was transferred.

CanPac Leasing Limited

Because of its growing use of leasing arrangements as a means of acquiring equipment and because of its access to financial markets, CPL recognized the financial advantage to be gained from becoming involved in the leasing field on a commercial basis. This was achieved through the incorporation, in December 1971, of CanPac Leasing Limited, a wholly-owned subsidiary of CPL, with general powers to buy, sell, lease, exchange or otherwise deal generally in real and personal property of every kind. In view of the other financing activities carried on by CPI, arrangements were made for the purchase by the latter company of the full ownership of CanPac Leasing Limited in May 1973.

While CanPac Leasing Limited provides services to companies within the Canadian Pacific group, approximately 70% of the company's leasing business is now obtained from companies outside the group. CanPac Leasing Limited ranks about 4th in commercial leasing activities within Canada, although its share of this market is less than 10%.

Commandant Properties, Limited

This company was incorporated in October 1929 as Lucerne-in-Quebec Community Association Limited, its name being changed subsequently in July 1933 to Seigniory Club Community Association

Limited and in April 1966 to its present form. In general, the powers of Commandant were to carry on the business of a land company, deal in lands and real estate and carry on the business of hotels, restaurants and similar operations for a profit.

The assets of the company comprised over 100 sq. mi. of forest and lake country at Montebello, Quebec, located on the north shore of the Ottawa River, 80 miles west of Montreal and 40 miles east of Ottawa. In 1929, CPL first acquired a 40% interest in this company, which was to develop an exclusive club for the Seigniory Club Inc., and in the following year acquired the remaining 60% interest in the company when the original subscriber and principal promoter of the development failed to pay up his own subscription. CPL then advanced monies to complete the development of the property, which included mainly a large 200 room log chateau, swimming pools, a curling rink and golf facilities adjacent to the Ottawa River for use by the club members, together with the establishment of a hunting and fishing territory in the major area of the property lying to the north. Over the years, a number of residential lots were sold to club members in order to build country houses.

In 1974, the log chateau and related facilities located on the Ottawa River were sold to CP Hotels, which company had been managing the property as a hotel since 1970. In addition to income from small logging operations, Commandant leases the hunting and fishing territory, the golf course and other facilities to CP Hotels for use in connection with its hotel operation. On January 1, 1975, CPI purchased from CPL full ownership of the outstanding shares of Commandant Properties Limited.

The Investment Portfolio

The investment portfolio was established in 1962 and some $181,000,000 was invested in the following two years. These funds, together with funds resulting from the preferred stock issued in 1967, retained earnings and debt issues, provided the financial base upon which the present common stock holdings in the portfolio have been built. These investments were made on the basis of potential growth. In most cases, common shares were acquired in Canadian companies having less than a predominate share of their particular market. Excluding minor investments which amount to less than one-half of one per cent of ownership which were acquired during 1973 and 1974 in Brascan Limited, Massey-Ferguson Limited, Aquitaine Company of Canada Ltd. and the International Nickel Company of Canada, Limited, the present holdings in common stocks of non-controlled companies consist of those in MacMillan Bloedel Limited (13.43% owned), TransCanada PipeLines Limited (14.29% owned), Rio Algom Limited (9.88% owned), Union Carbide Canada Limited (8.25% owned) and MICC Investments Limited (7.19% owned).

Historical Summary

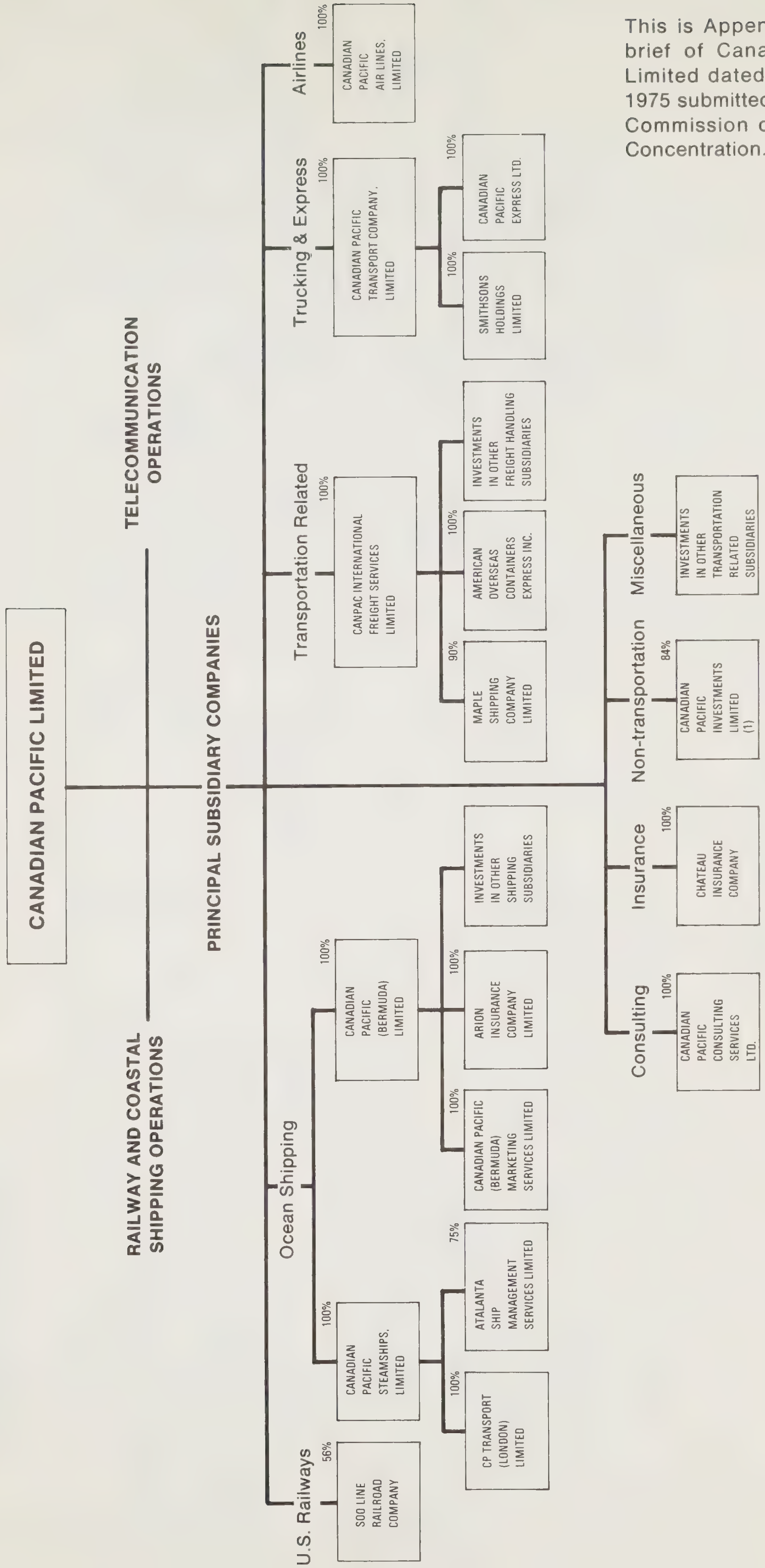
As McDougall has observed and as the record shows, Canadian Pacific Limited has never been a tidy little business. It had from the first been diversified within itself through the supplying of express, sleeping and dining-car services and it had also become involved at an early stage in hotel operations and with a communications system, both of which formed natural adjuncts to its early railway operations. Its subsequent participation in shipping, trucking and in airlines flowed naturally and inevitably from its broadening interest in transportation generally.

But beyond the confines of transportation, the process of diversification was applied equally to the company's land holdings as a result of the experience which it had gained in helping to settle and develop the West. This experience in land development encouraged the Company to think in broader terms of development, of oil and gas, of other minerals such as coal and of timber rights. Around these assets were fashioned enterprises that have evolved into subsidiary companies that have, in turn, laid claim to exist and develop in their own right. CPL could no longer remain just a land owner, a landlord collecting rents or royalties; it must assume an entrepreneurial posture in relation to these assets. In the result, not only were its initial holdings developed but subsequent acquisitions and additions have served to broaden the resource base. Just as Canadian Pacific Limited evolved inevitably into a transportation company, so it evolved inevitably into a resource development company and the "happy accident" of the Cominco

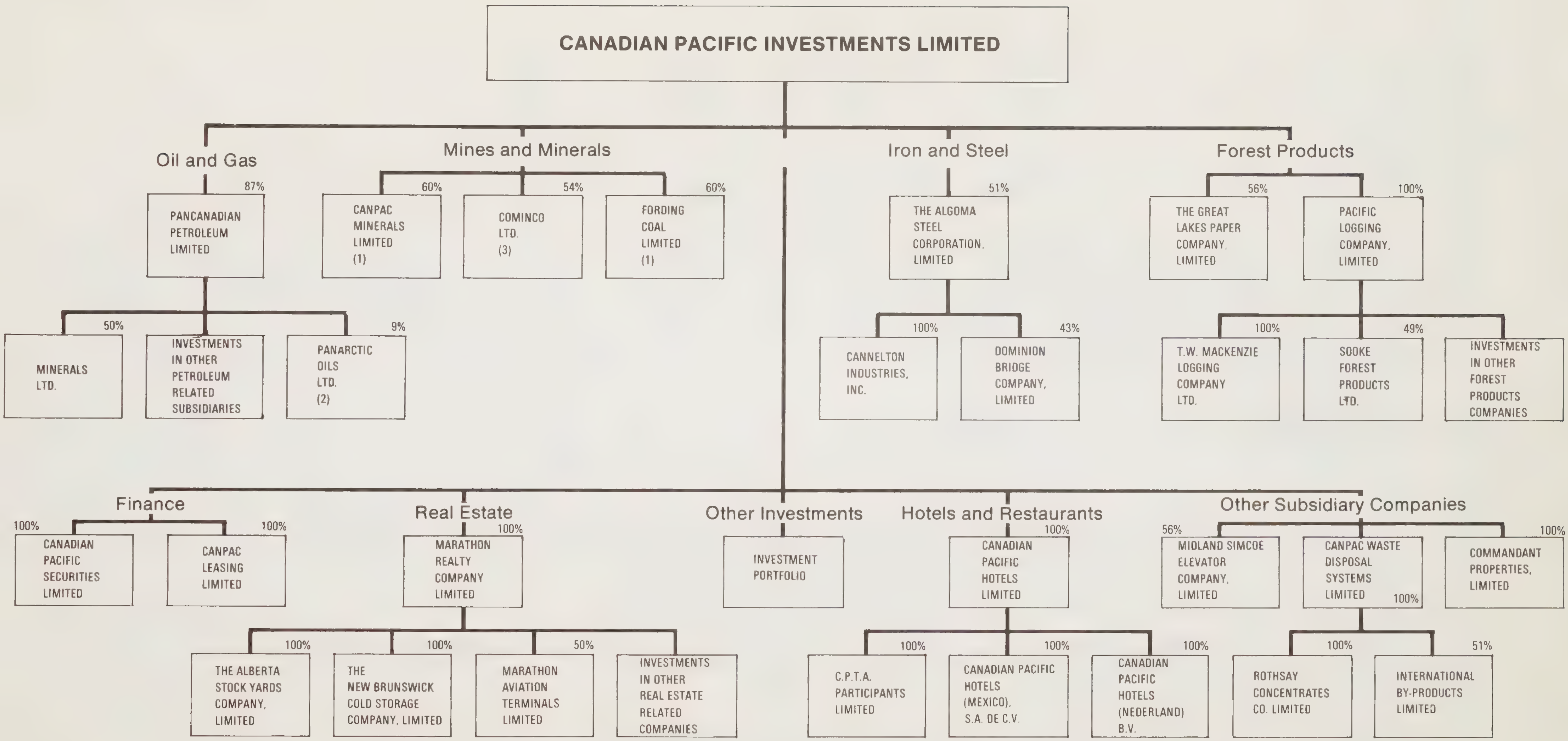
acquisition in the early years appears to have found its modern counterpart in the recent acquisition of a substantial interest in The Algoma Steel Corporation, Limited from a foreign owned company.

Moreover, the policy of developing in the transportation, communications and resource areas has been followed in the investment area with the result that the investment portfolio has been selected to augment and balance the operating subsidiaries. Where possible, the operating base of the subsidiary companies has been broadened through the investment portfolio.

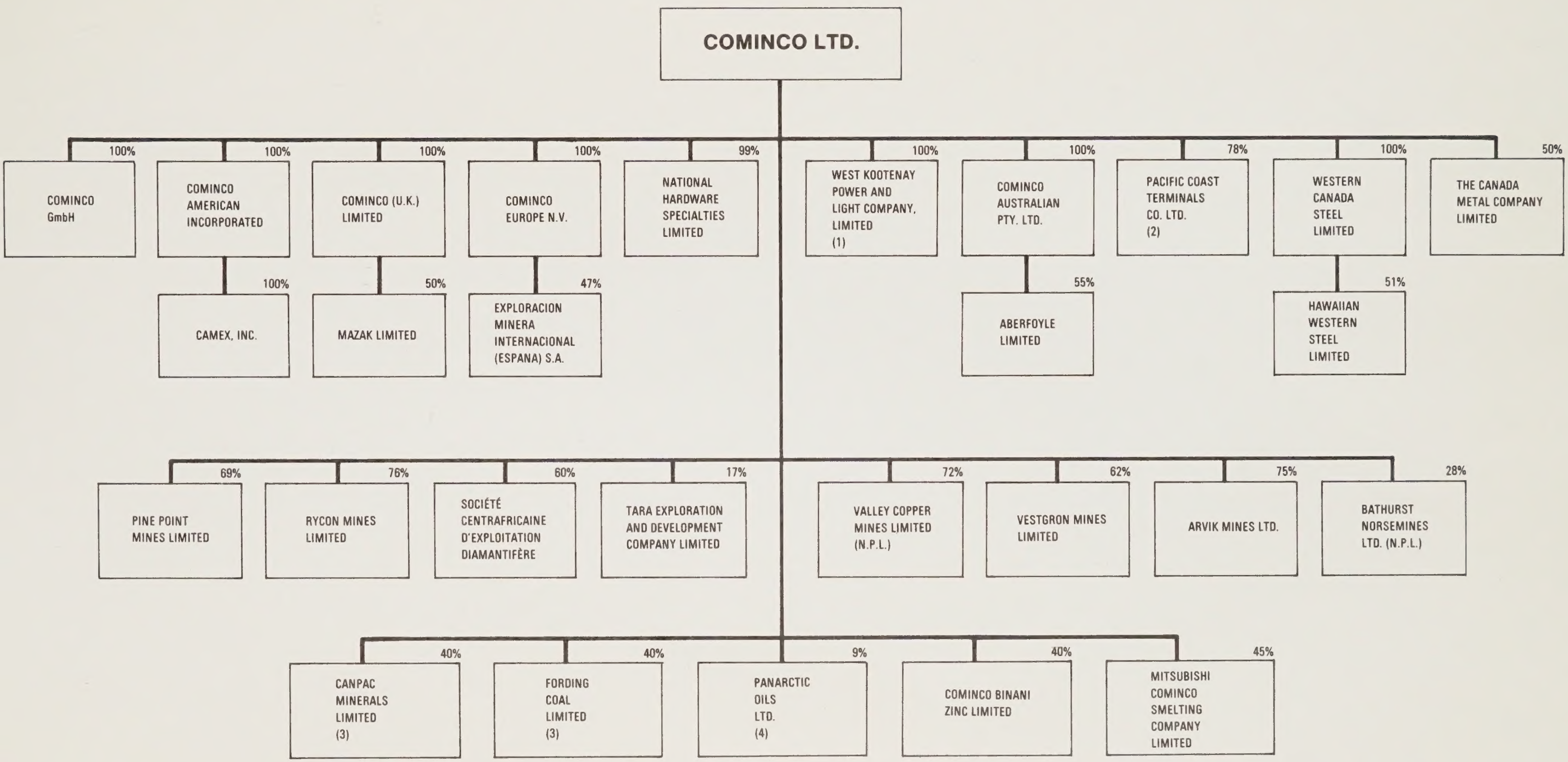
This is Appendix B to the brief of Canadian Pacific Limited dated October 15, 1975 submitted to the Royal Commission on Corporate Concentration.



(1) See Page 50 for details.



(1) Balance of ownership held by Cominco Ltd.
(2) 9% interest also owned by Cominco Ltd.
(3) See page 51 for details.



(1) Ownership 100% Common, 25% Preferred.
(2) 19% interest also owned by Canadian Pacific Investments Limited.
(3) Balance of ownership held by Canadian Pacific Investments Limited.
(4) 9% interest also owned by PanCanadian Petroleum Limited.

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